

# A Profile of the Washington Economy Going Forward

Presented to  
Northwest Construction Consumer Council Conference

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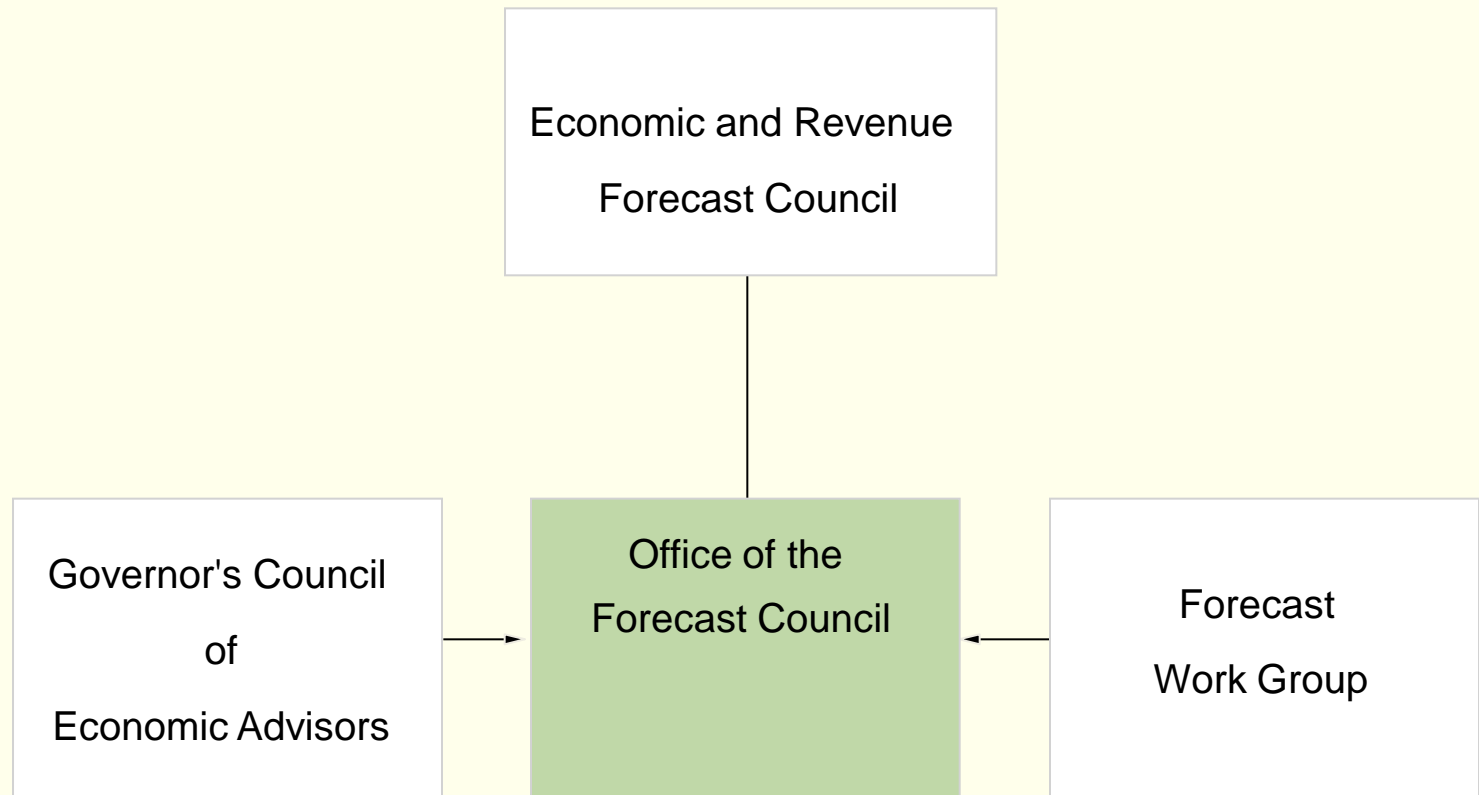
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# Forecast Governance

## **ERFC**

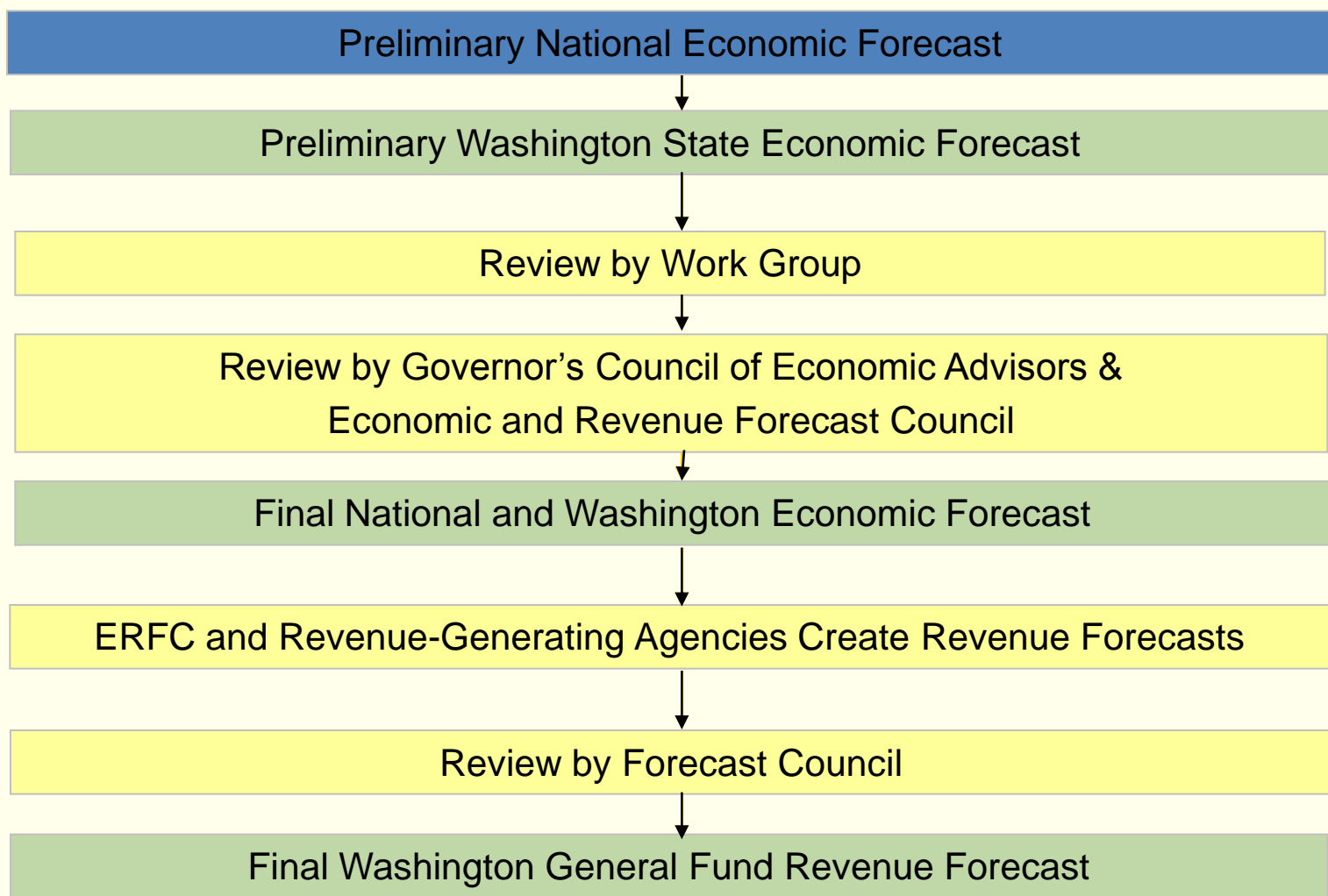
- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





# ERFC Forecast Process

The national economic forecast is based by the Global Insight model



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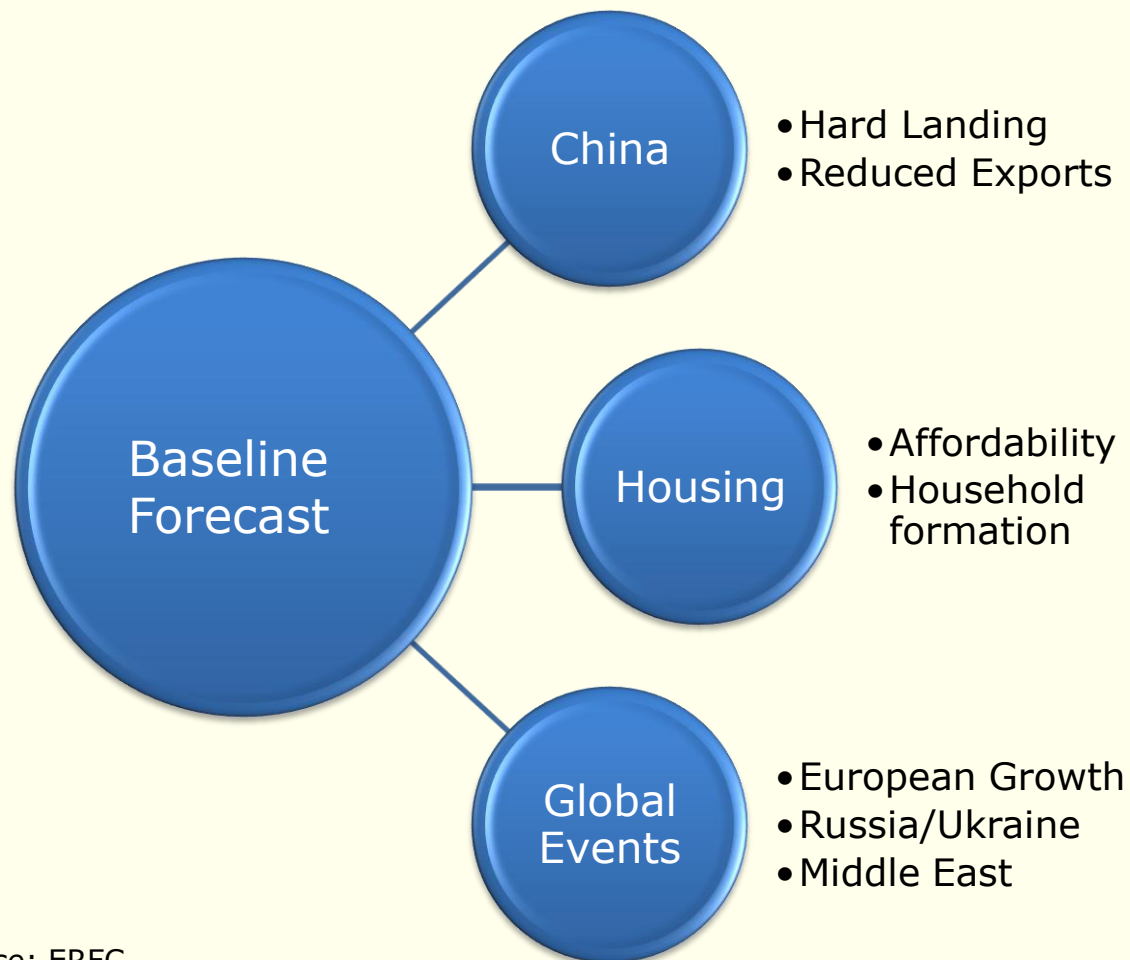


# Summary

- The September economic forecast is quite similar to June's forecast; we expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- Threats to economic recovery include the potential for slower Chinese and European economic growth, possible disruptions to the housing recovery, and a geopolitical unrest
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy
- GF-S revenues are expected to grow 8.7% between the 2011-13 and 2013-15 biennia and 8.2% between the 2013-15 and 2015-17 biennia



# Three major risks to the forecast



Source: ERFC



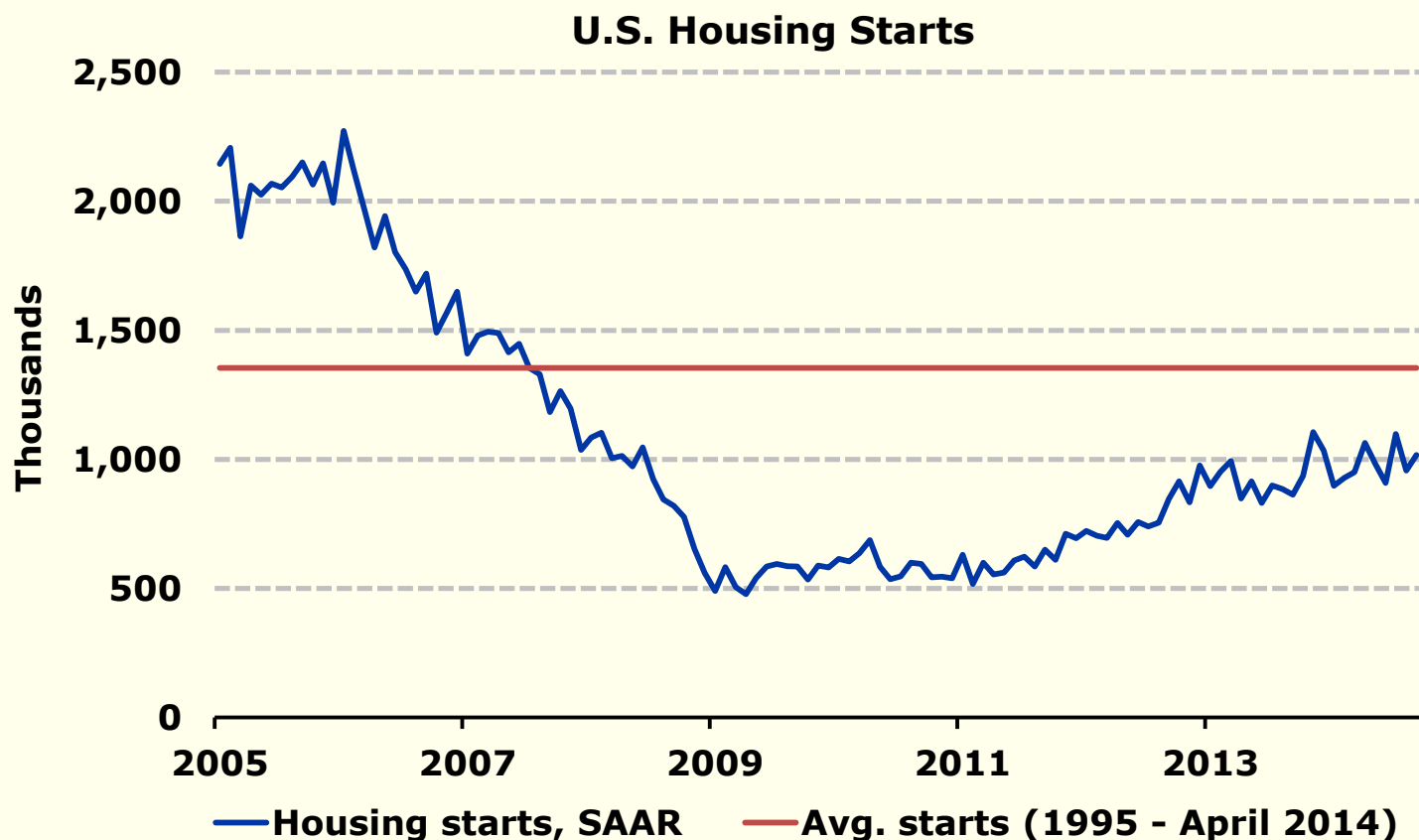
# Slowdown in manufacturing activity could signal lower Chinese economic growth



Source: National Bureau of Statistics of China; data through September 2014



# Housing starts are trending up but remain below historic average



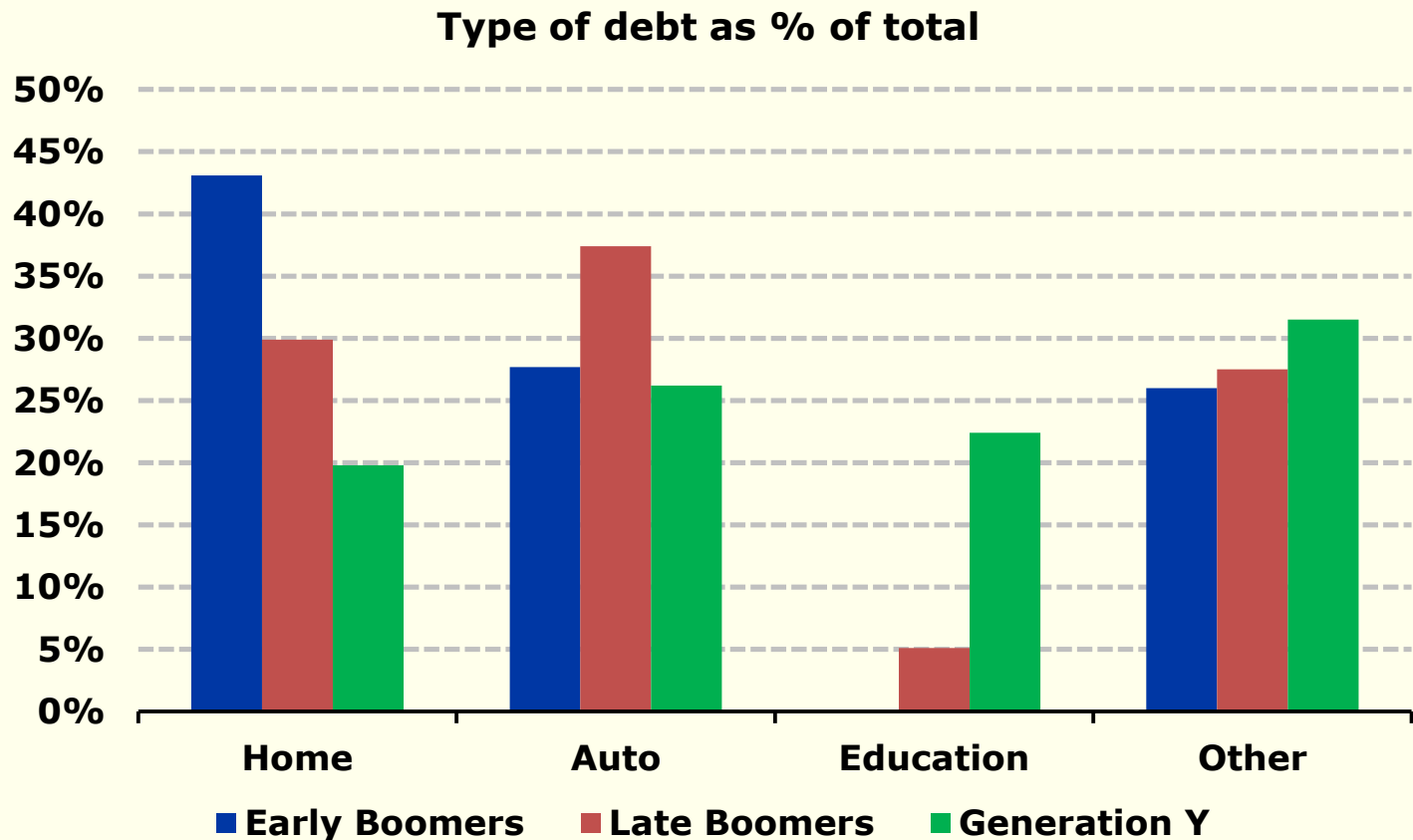


# Generation Y: more education debt, less housing debt compared to baby boomers

Early boomers:  
age 24-28 in  
1976-78;

Late boomers:  
age 24-28 in  
1989;

Generation Y:  
age 24-28 in  
2005-09

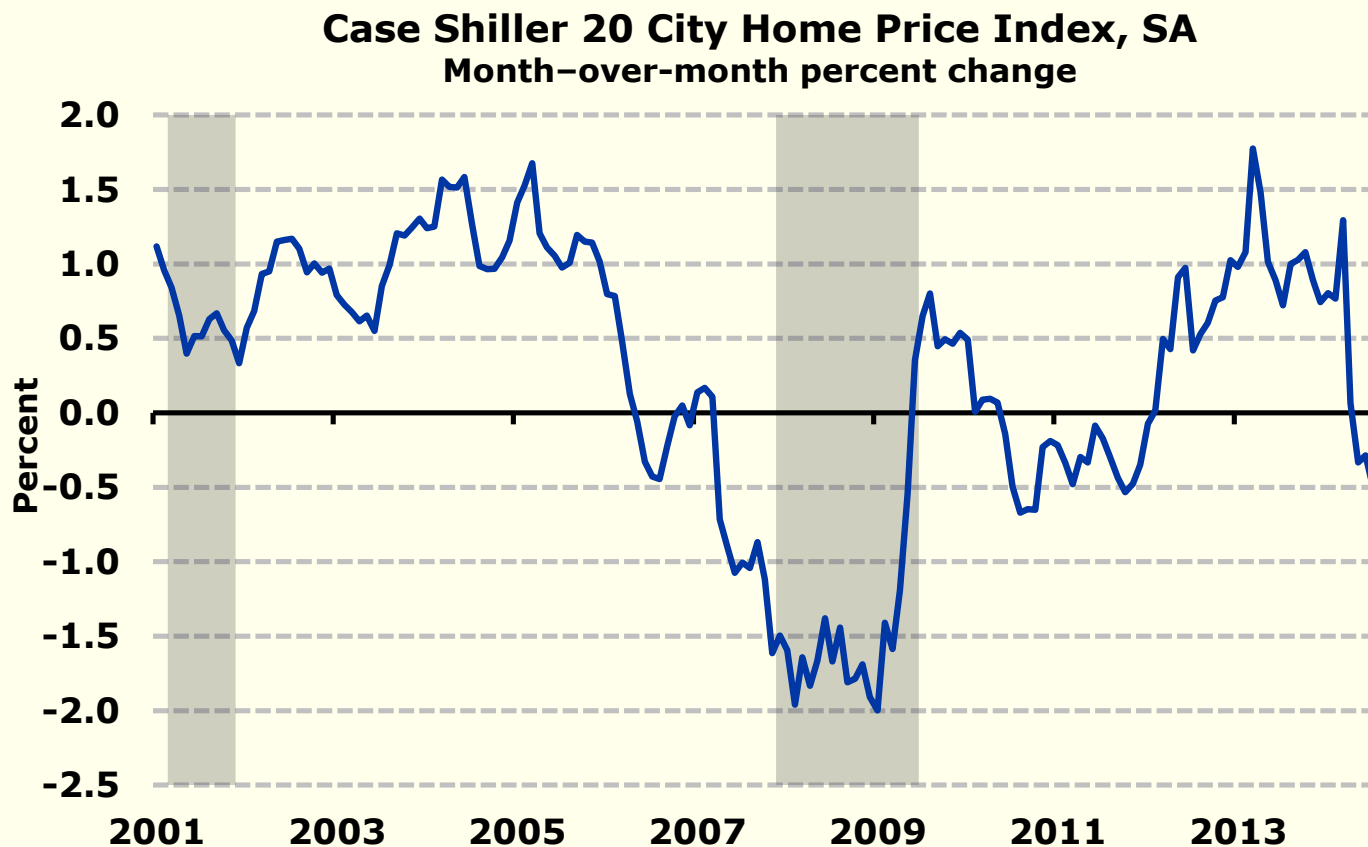


Source: J.N. Houle; National Longitudinal Survey





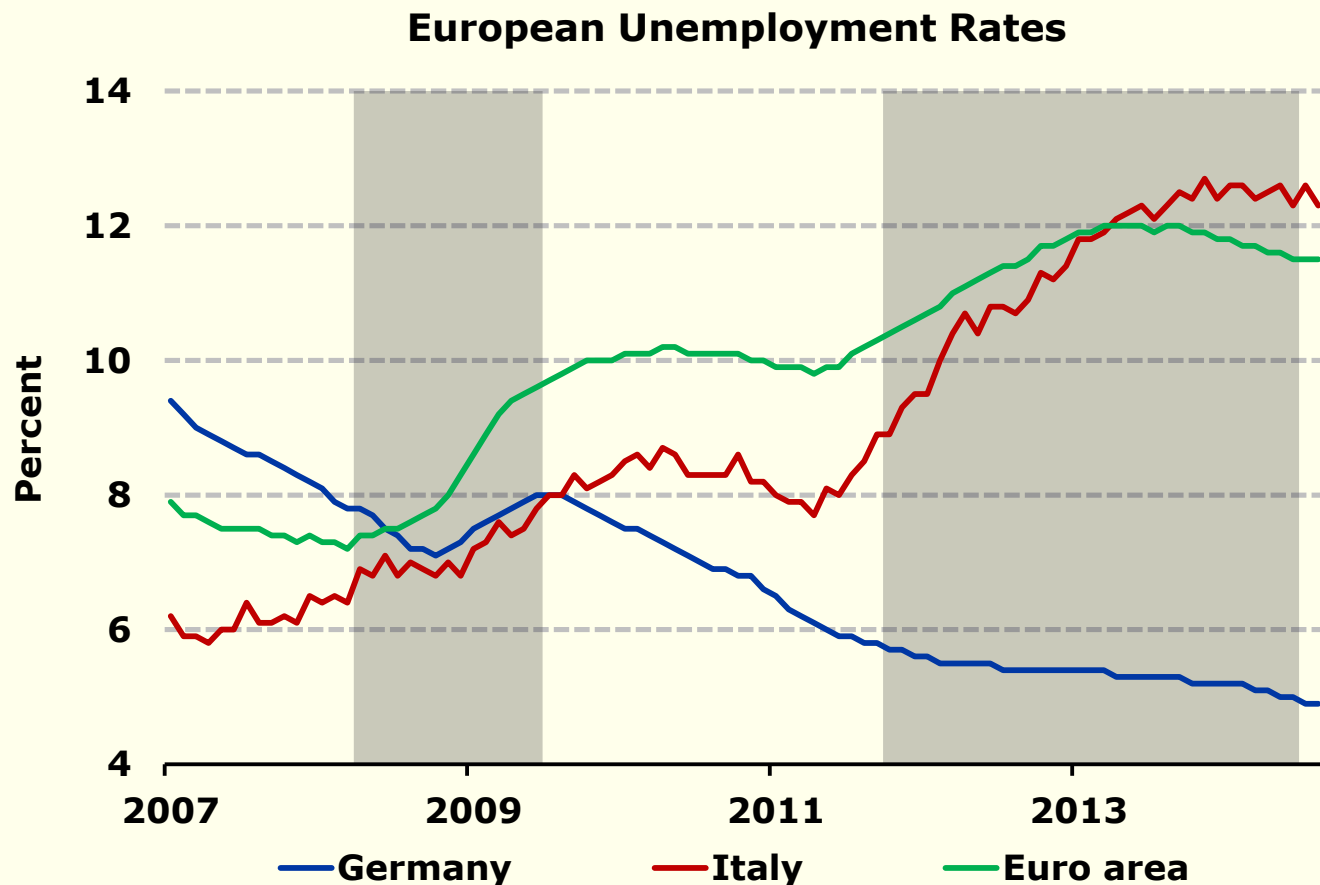
# Home prices are starting to moderate



Source: U.S. Composite-20, S&P/Case-Shiller; data through July 2014



# European unemployment remains high

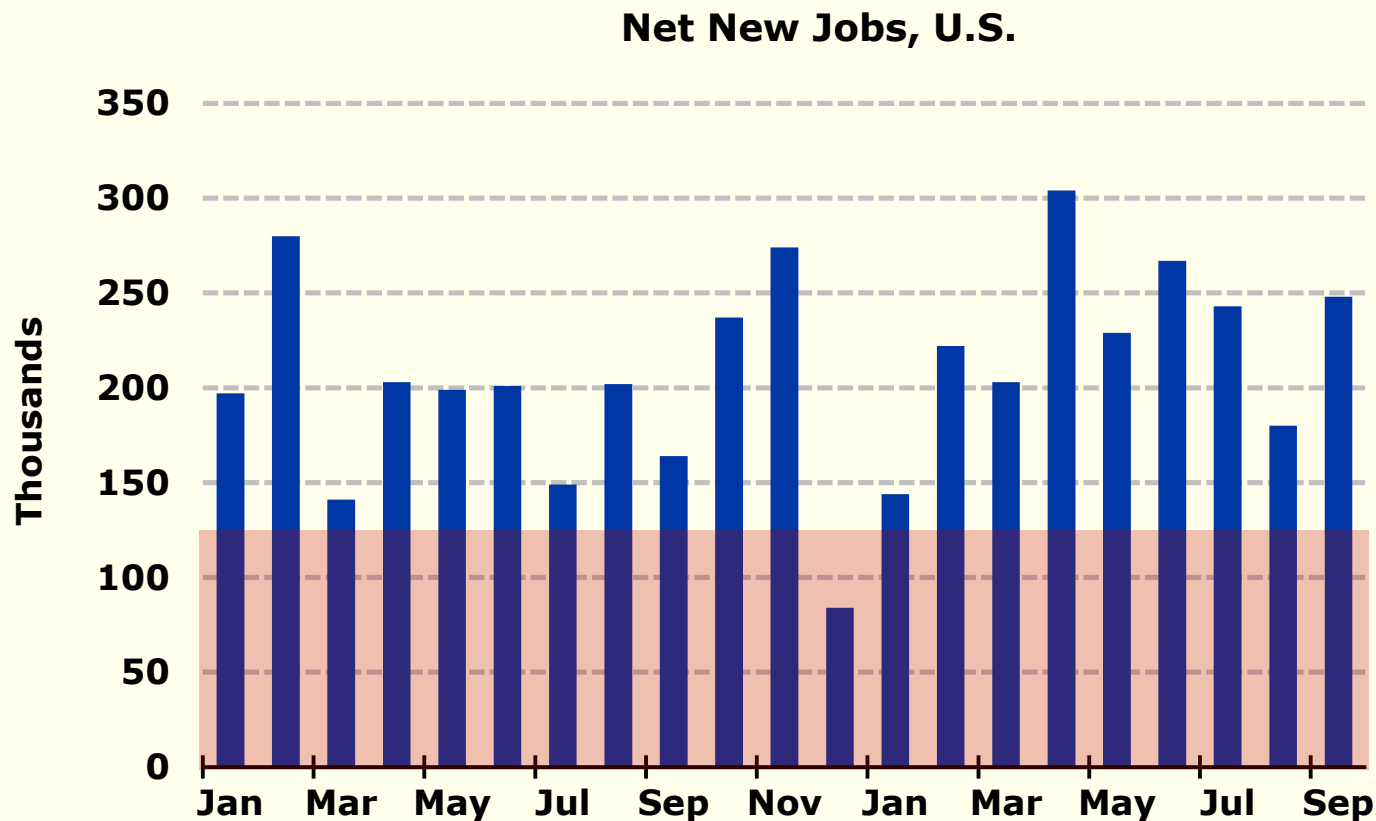


Source: Eurostat, Centre for Economic Policy Research; data through August 2014



# Job growth weakened in August but recovered in September

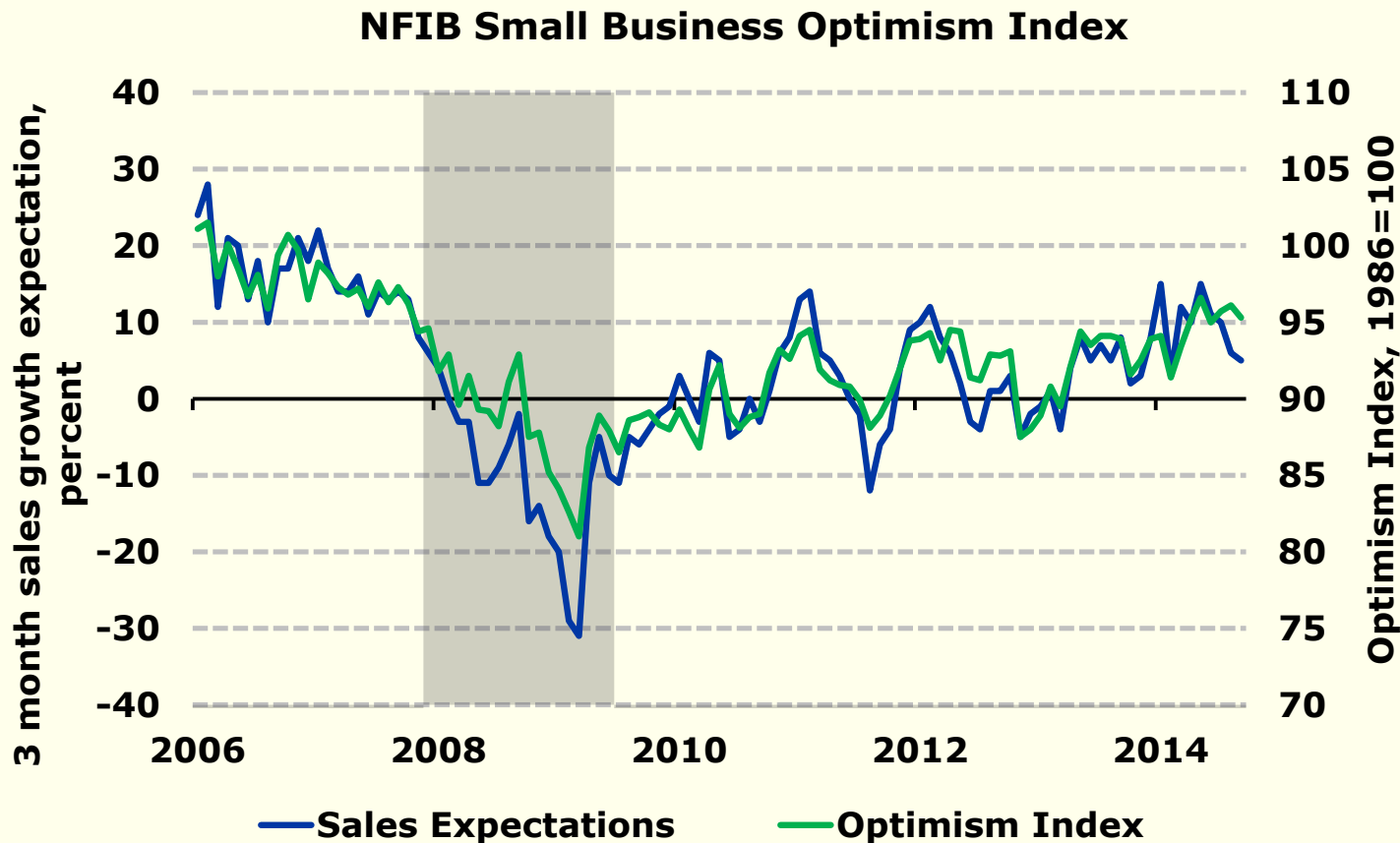
The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through August 2014



# Small business optimism and sales expectations are weak but improving

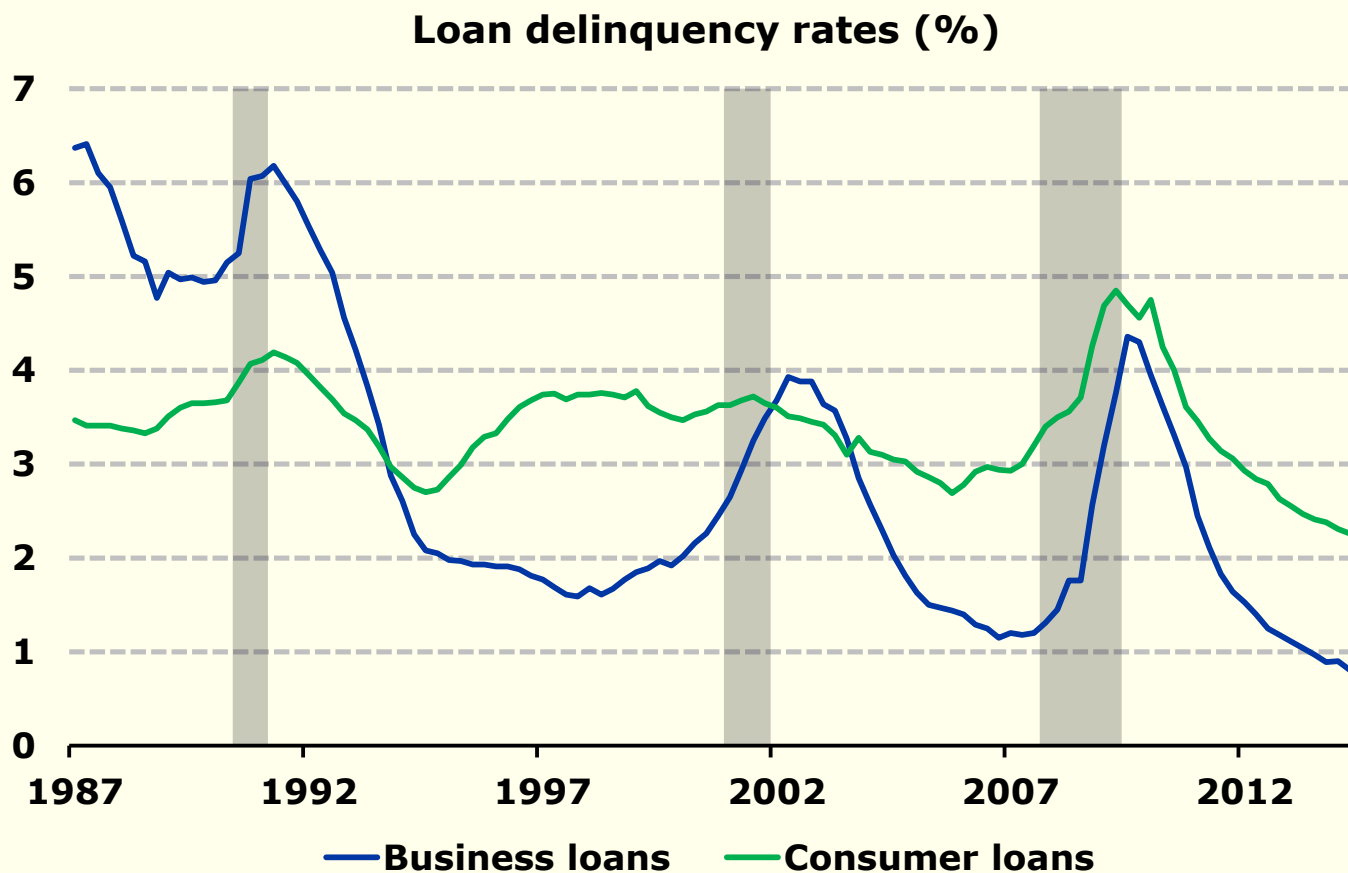


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Source: National Federation of Independent Business; data through September 2014



# Delinquency rates for business and consumer loans have dropped





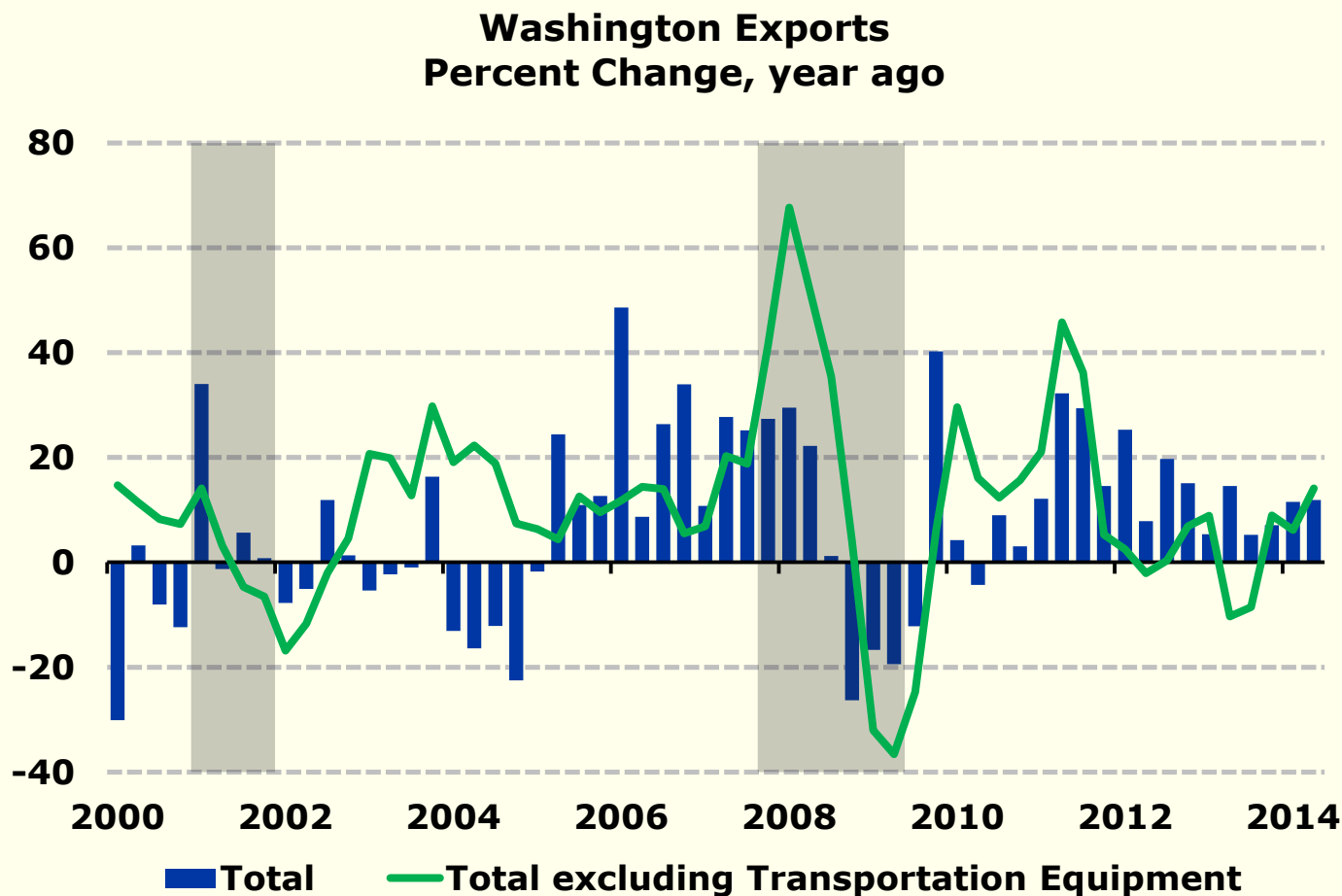
# Average U.S. wage growth is barely outpacing inflation



Source: U.S. Bureau of Labor Statistics, data through August 2014



# Non-transportation equipment export growth is back in positive territory

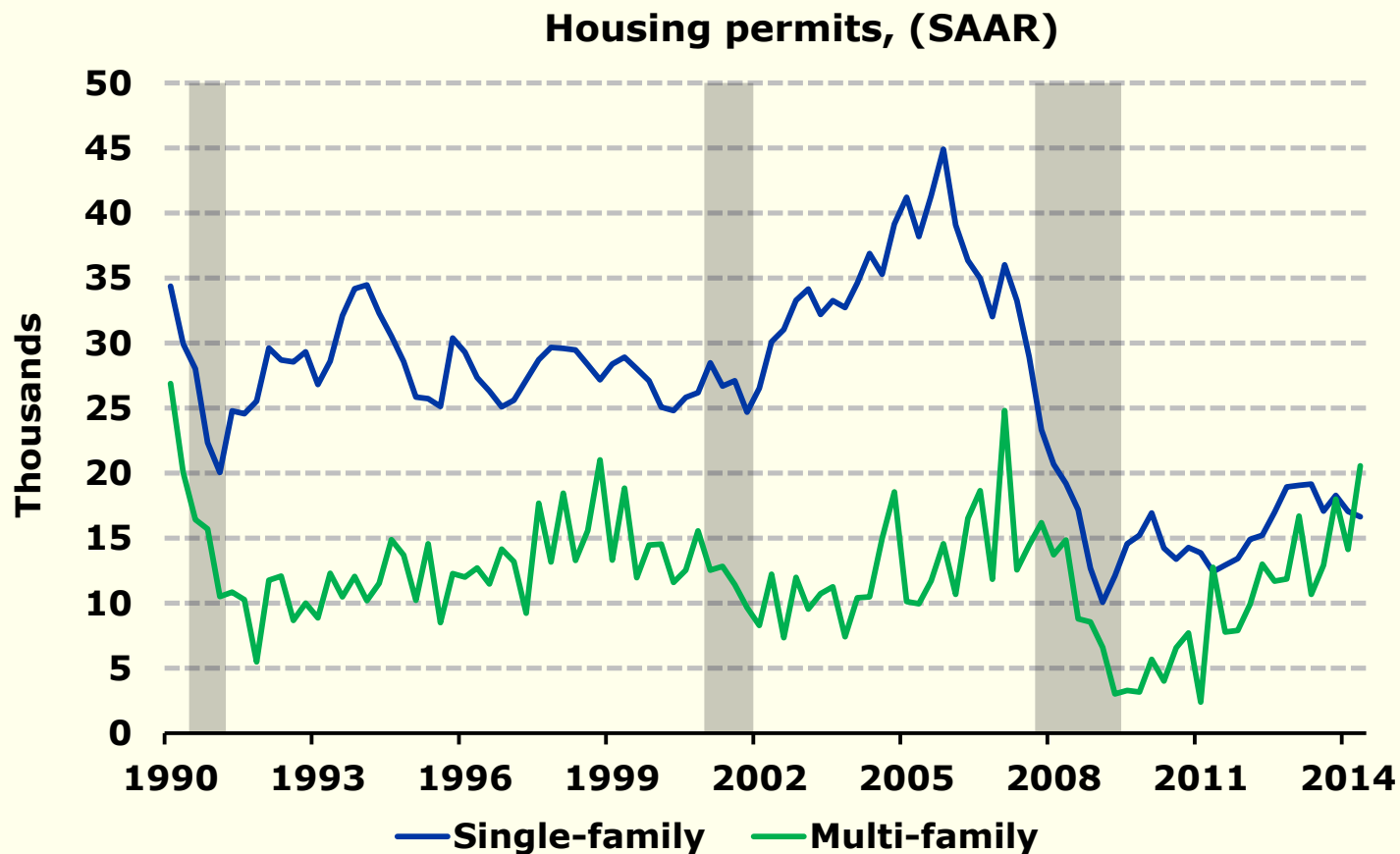


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Source: Wisner Trade Data; through 2014Q2



# WA housing permits – multi-family back to historic levels, single-family still weak



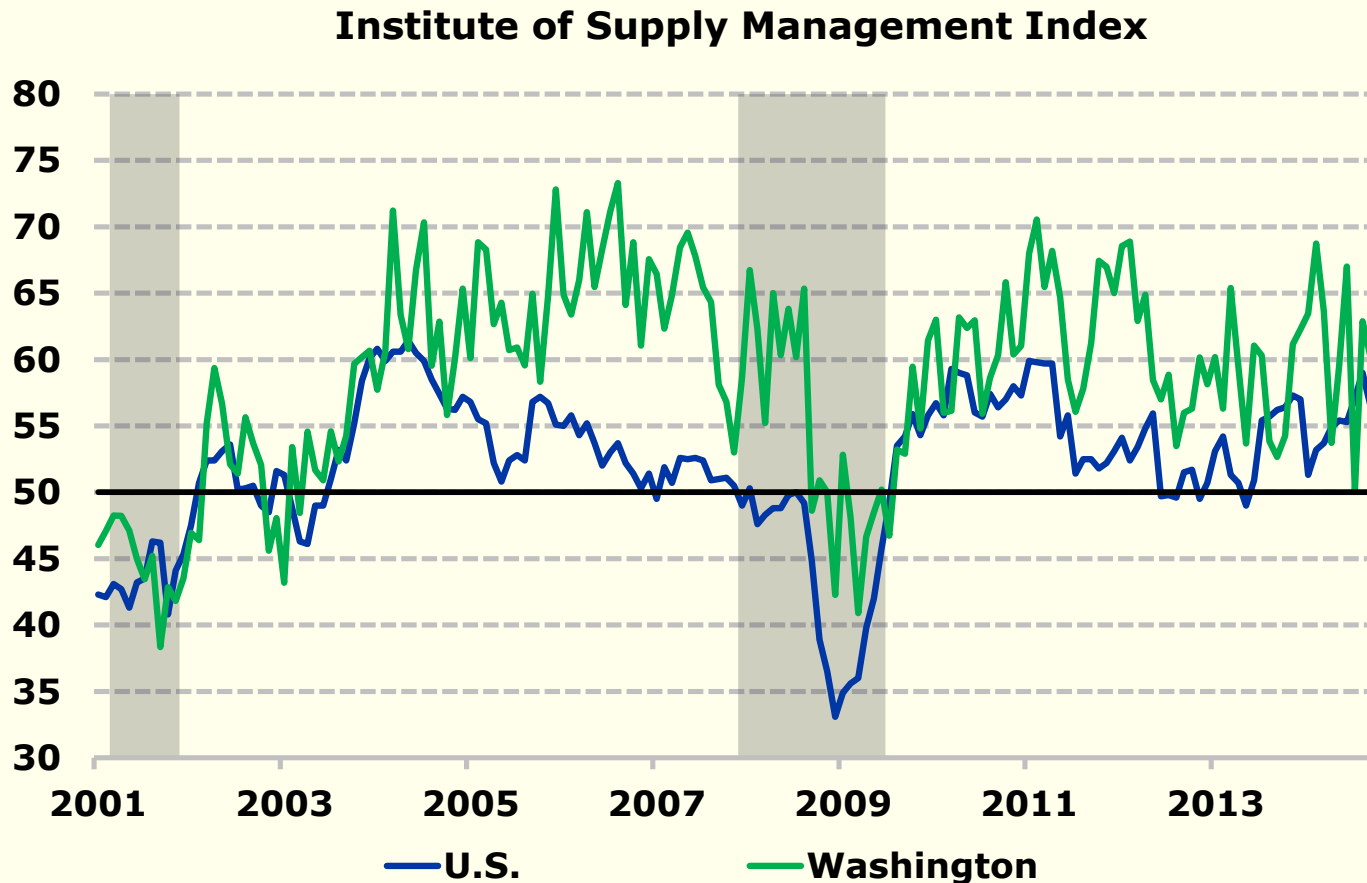
Source: U.S. Census Bureau, data through 2014 Q2





# Manufacturing activity: expanding faster in Washington than nationally

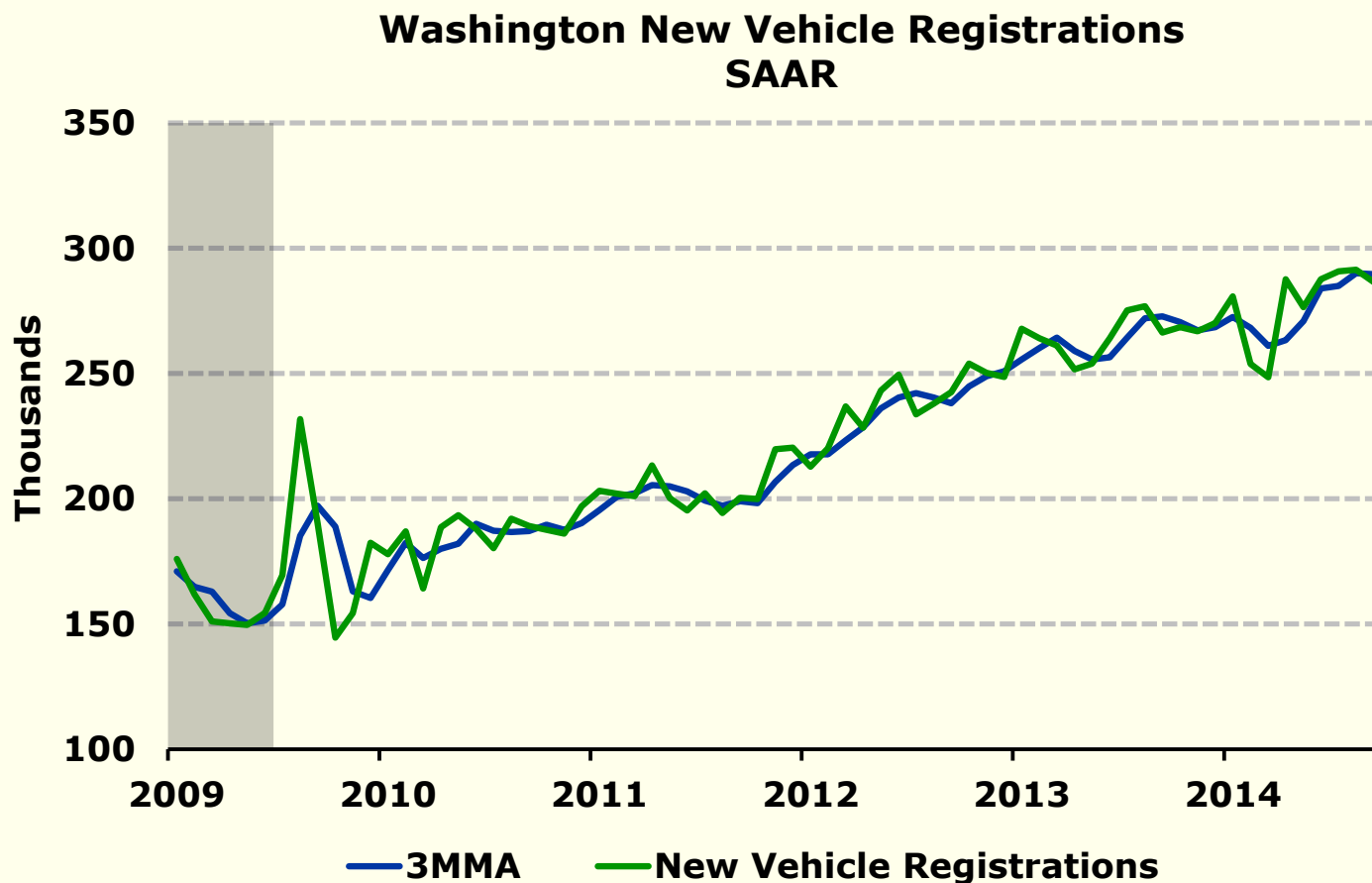
An index greater than 50, implies growth



Source: Institute of Supply Management; data through September 2014



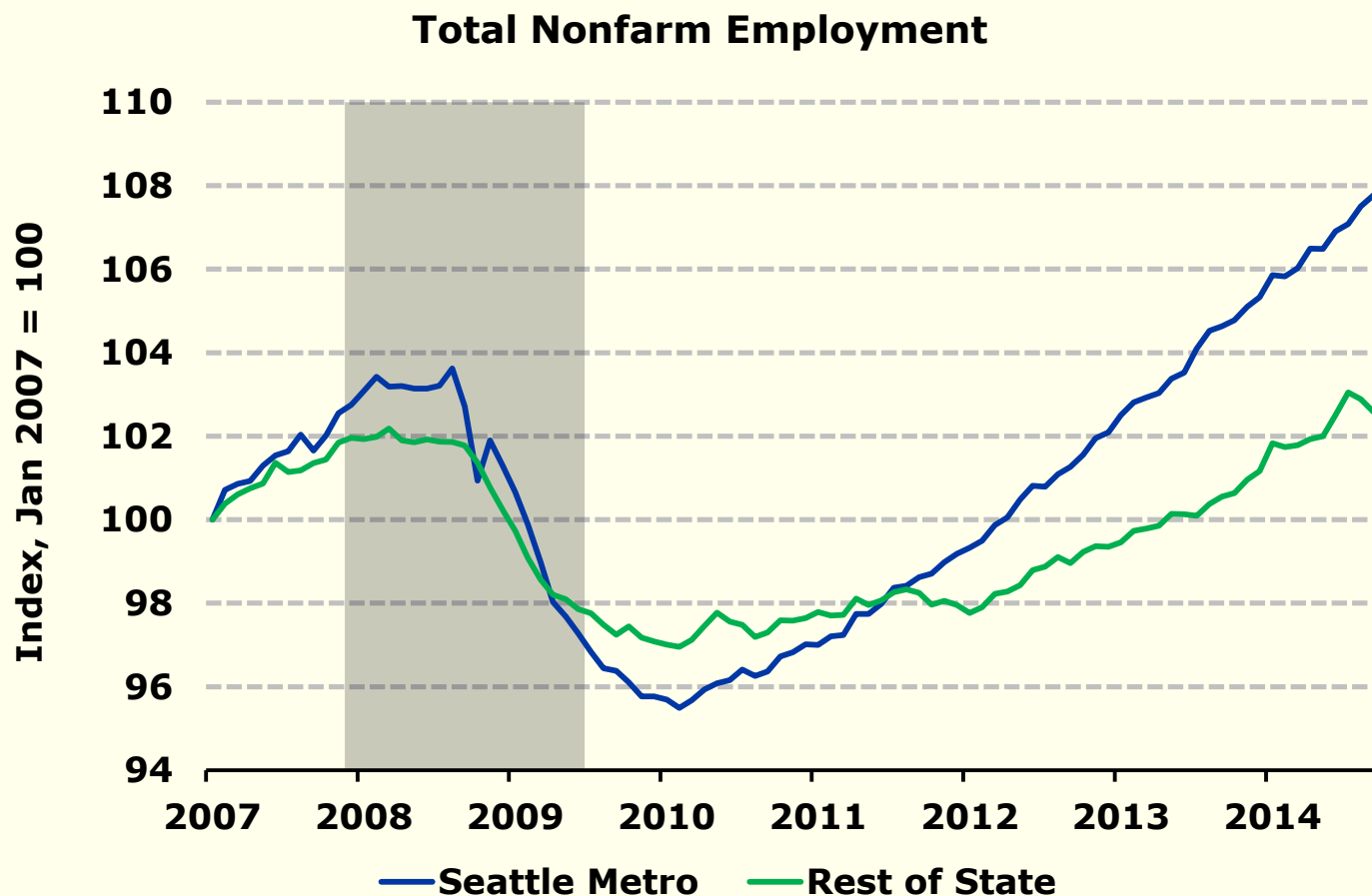
# Washington new vehicle registrations have resumed growth



Source: Dept. of Licensing, ERFC; data through September 2014



# Seattle area employment is growing much faster than the rest of the state

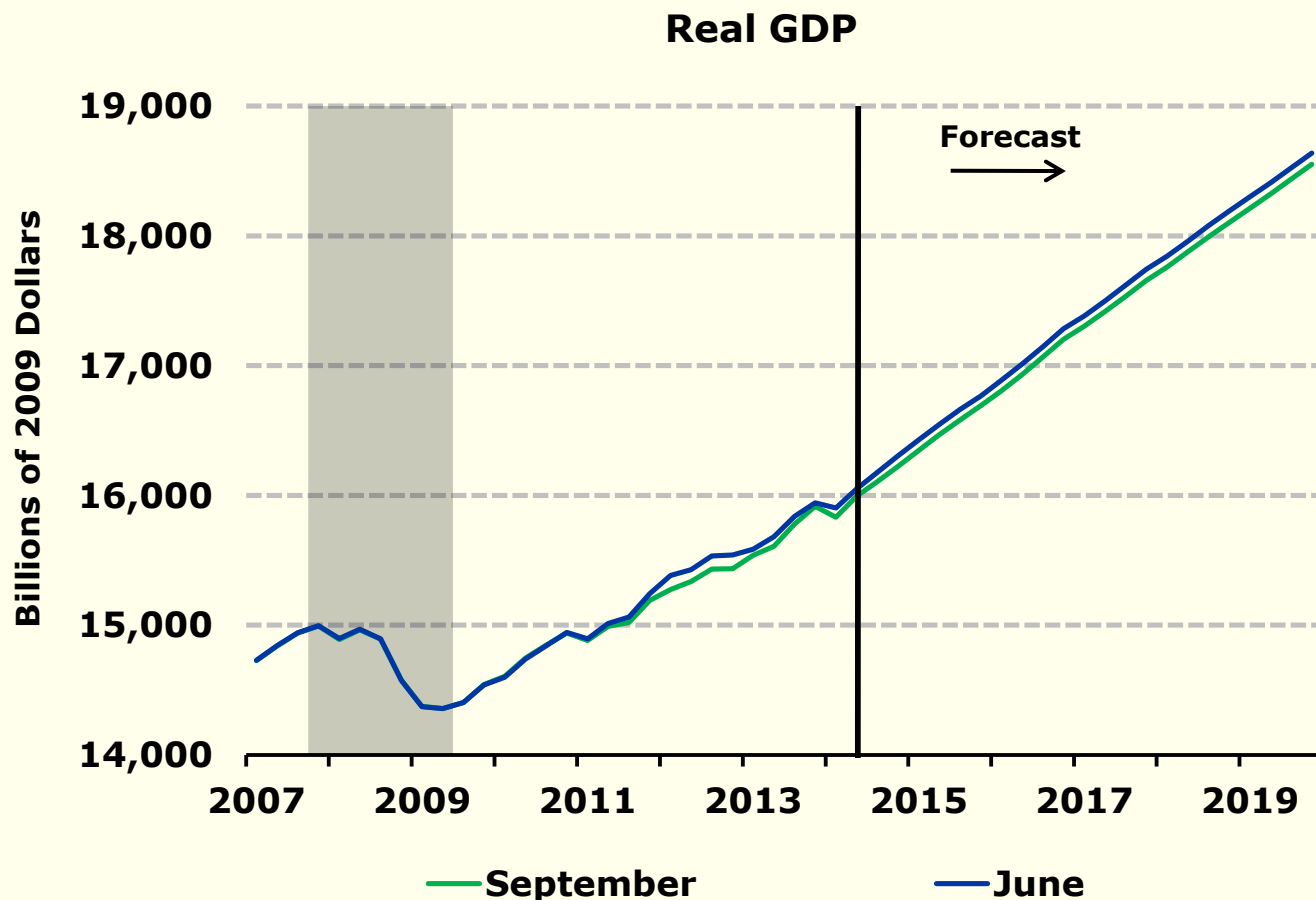


Source: Employment Security Department, ERFC; data through September 2014



# Real GDP is lower largely as a result of revisions to historic data

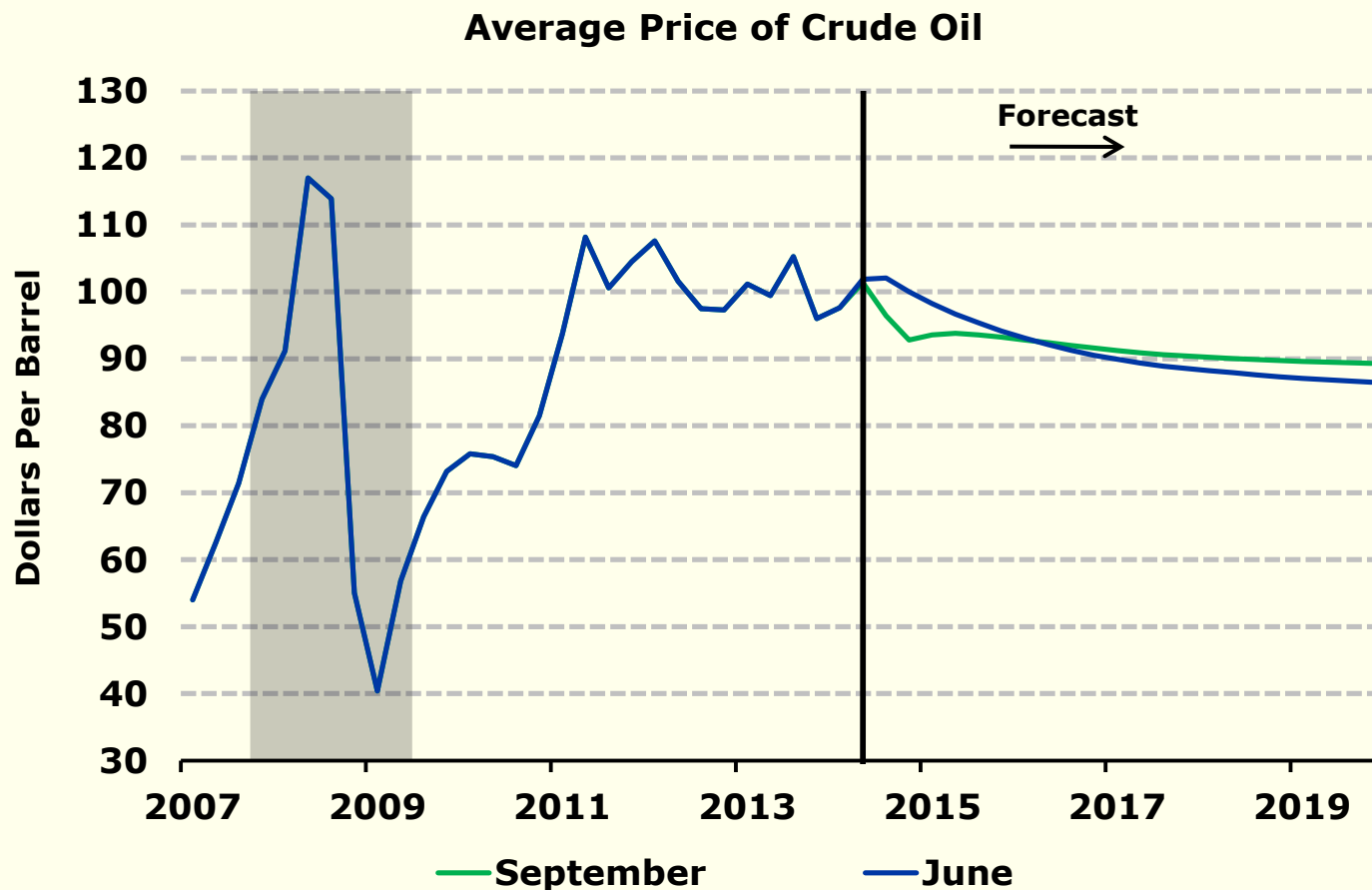
Real GDP growth for 2016 through 2019 is unchanged from June



Source: Global Insight, ERFC September 2014 forecast; historical data through 2014Q2

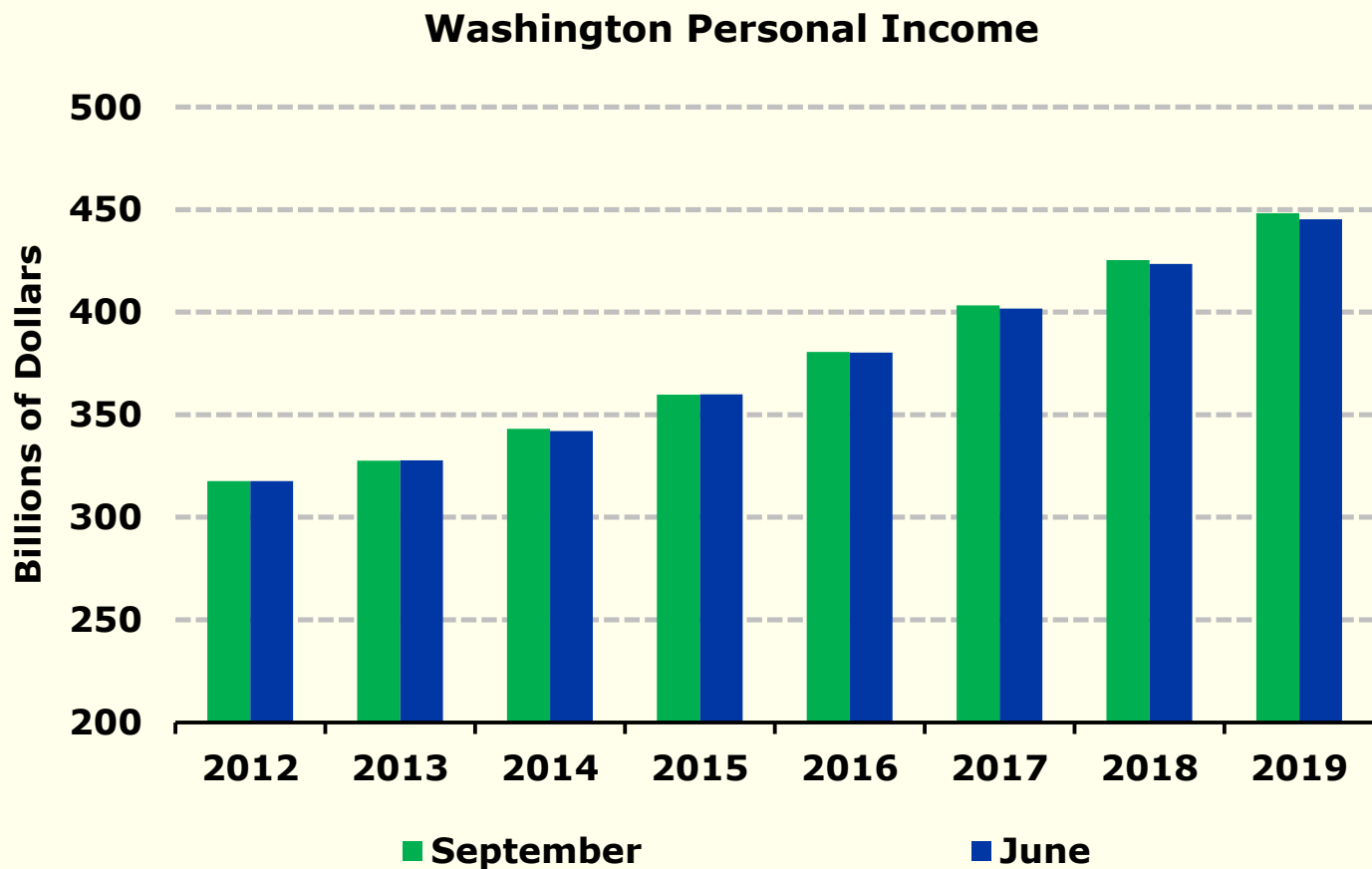


# Oil prices lower in the near term but decline less than in June





# Washington personal income forecast is similar to the June forecast

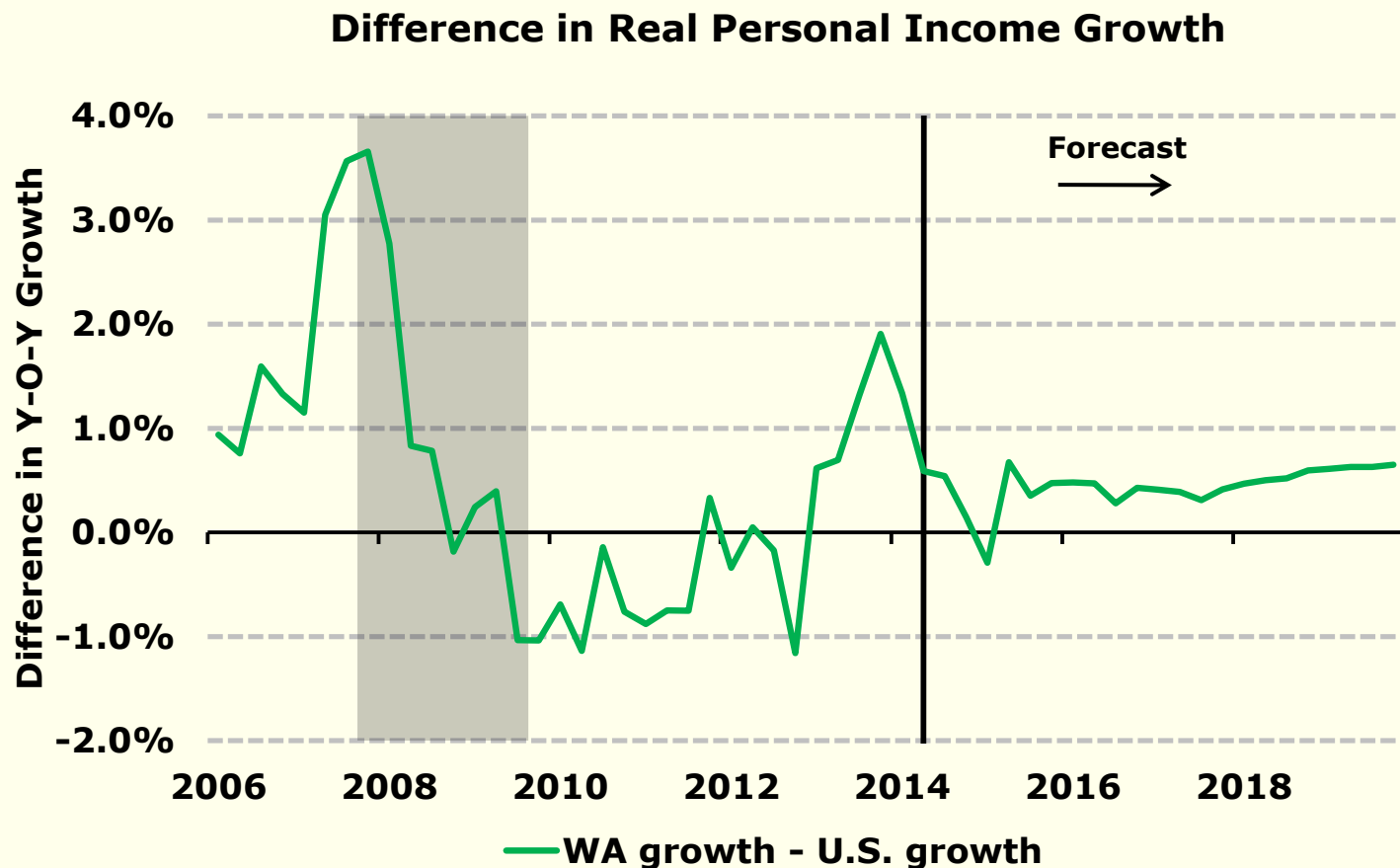


Source: ERFC September 2014 forecast; historical data through 2013



# State personal income will grow slightly faster than the U.S.

Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus

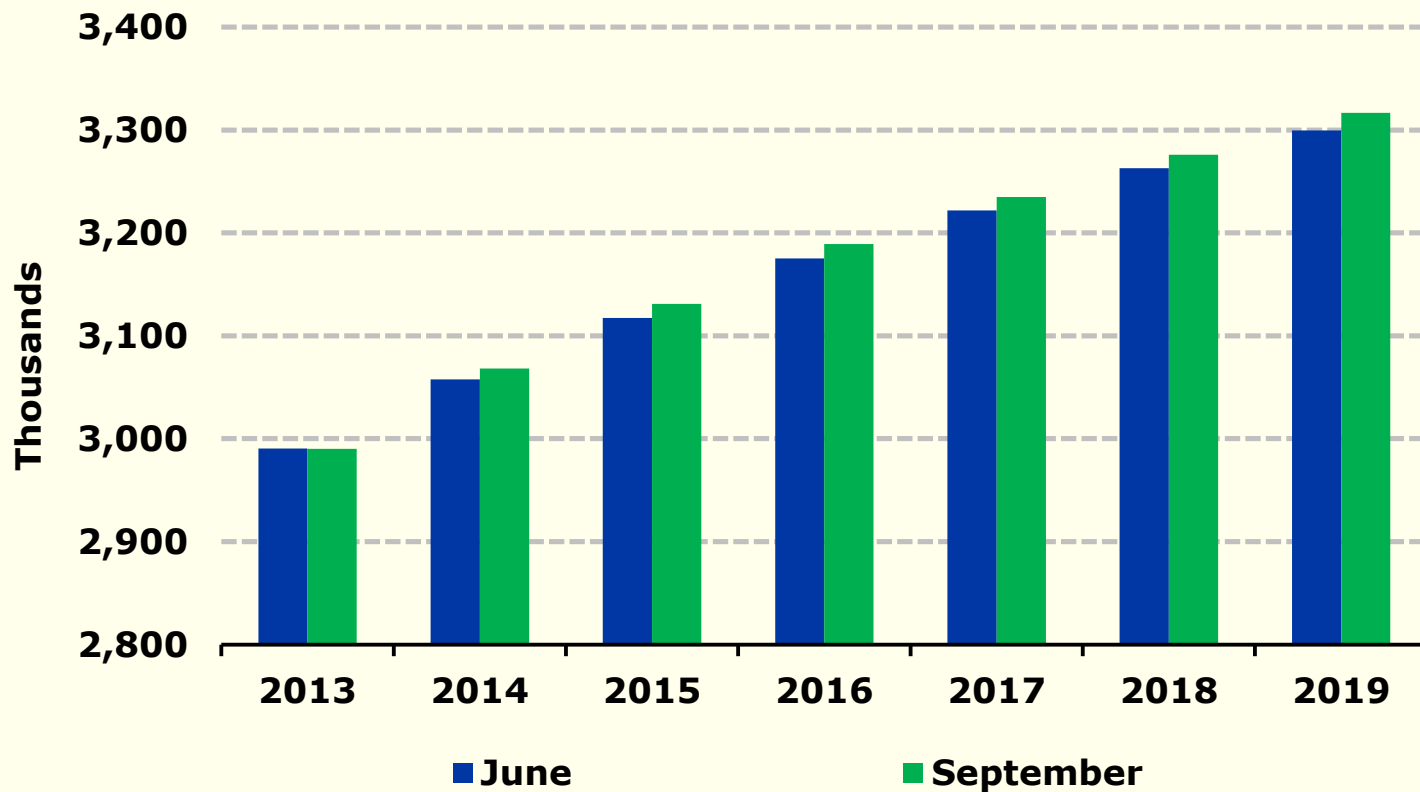


Source: ERFC September 2014 Preliminary forecast; historical data through 2014Q2



# Washington employment forecast revised up

**Washington Nonfarm Payroll Employment**

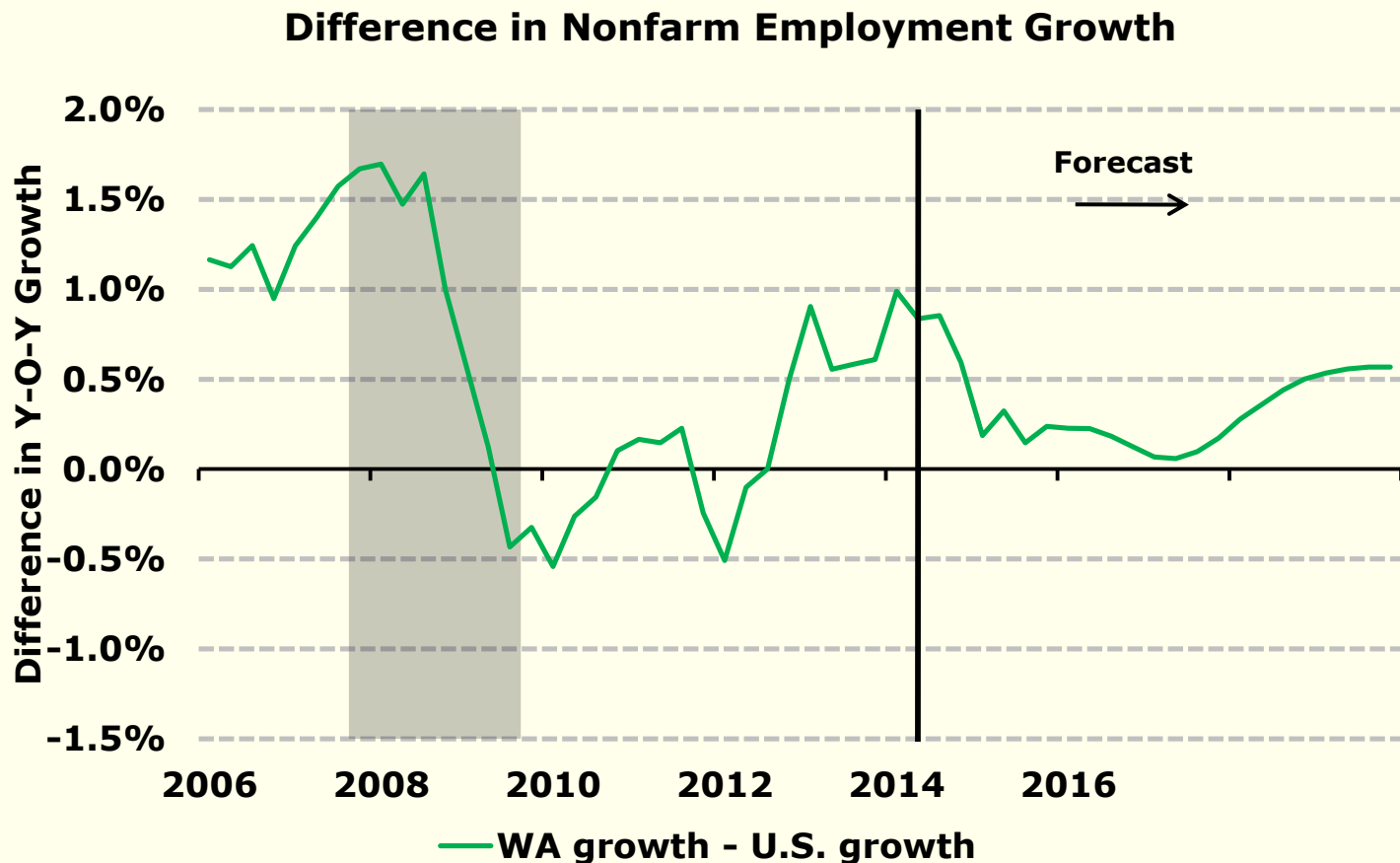


Source: ERFC September 2014 forecast; historical data through 2013





# Washington employment will grow slightly faster than the U.S.

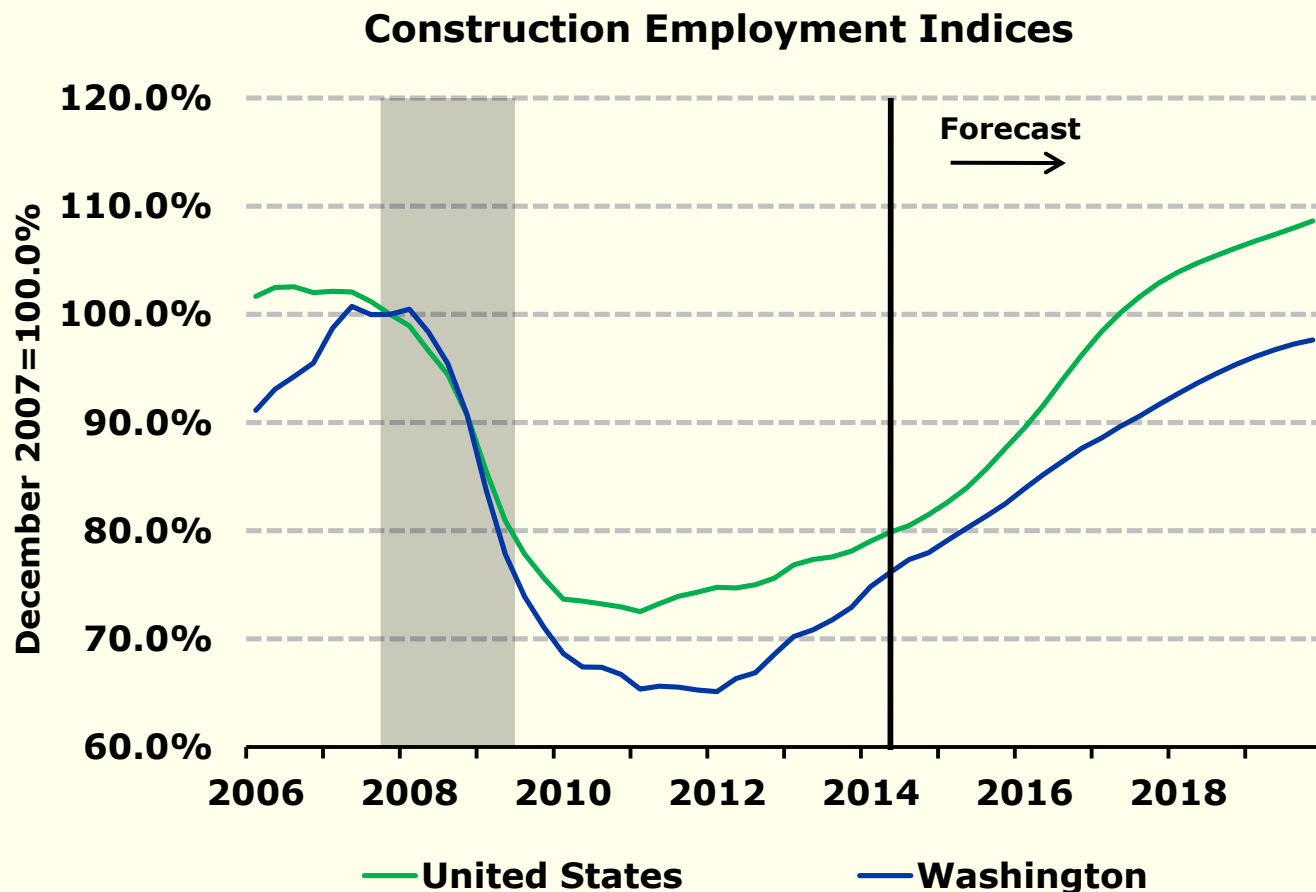


Source: ERFC September 2014 forecast; historical data through 2014Q2



# Washington construction employment is recovering faster than the U.S.

Washington construction employment fell more during the recession but is recovering faster than U.S. construction employment



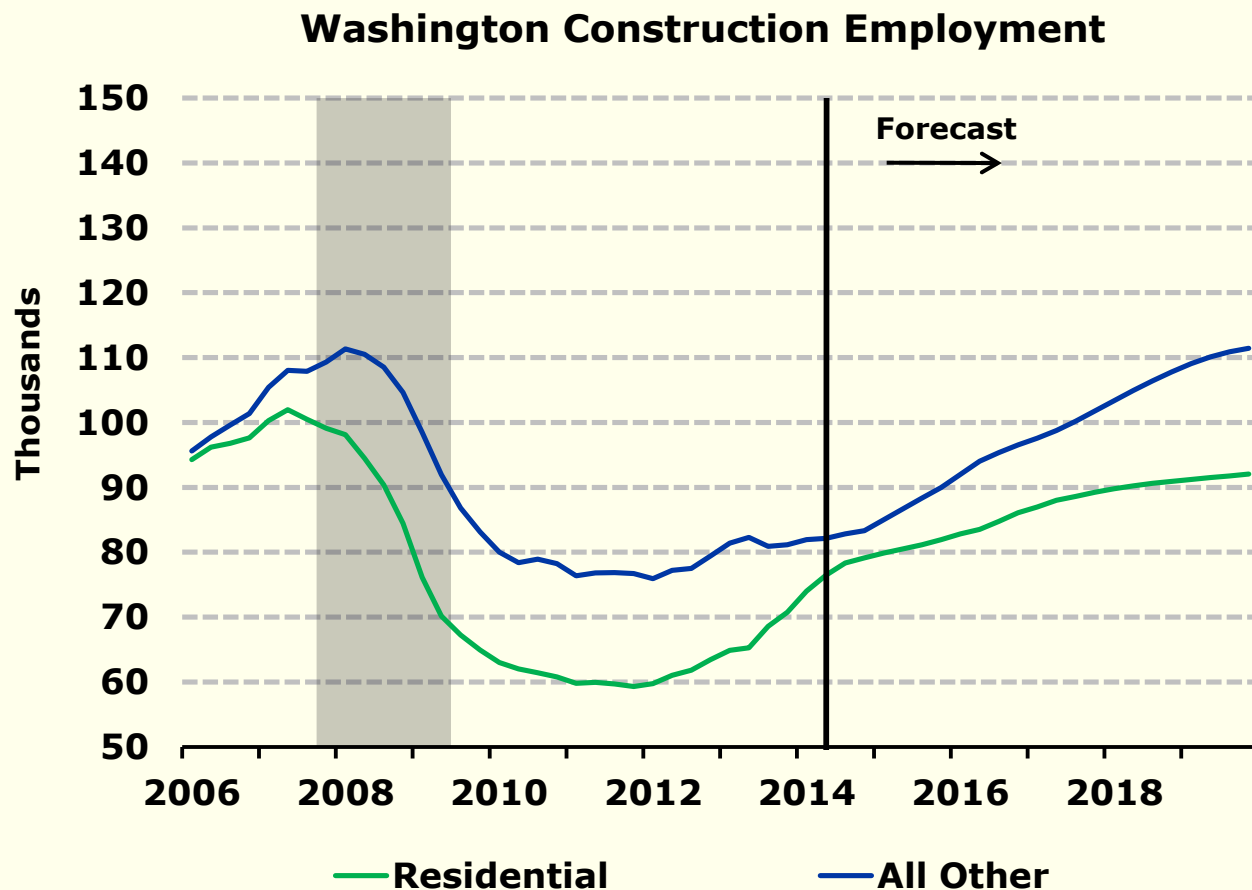
Source: ERFC September 2014 forecast; historical data through 2014Q2



# Washington residential construction is leading other construction

Washington residential construction employment growth has been leading other construction employment

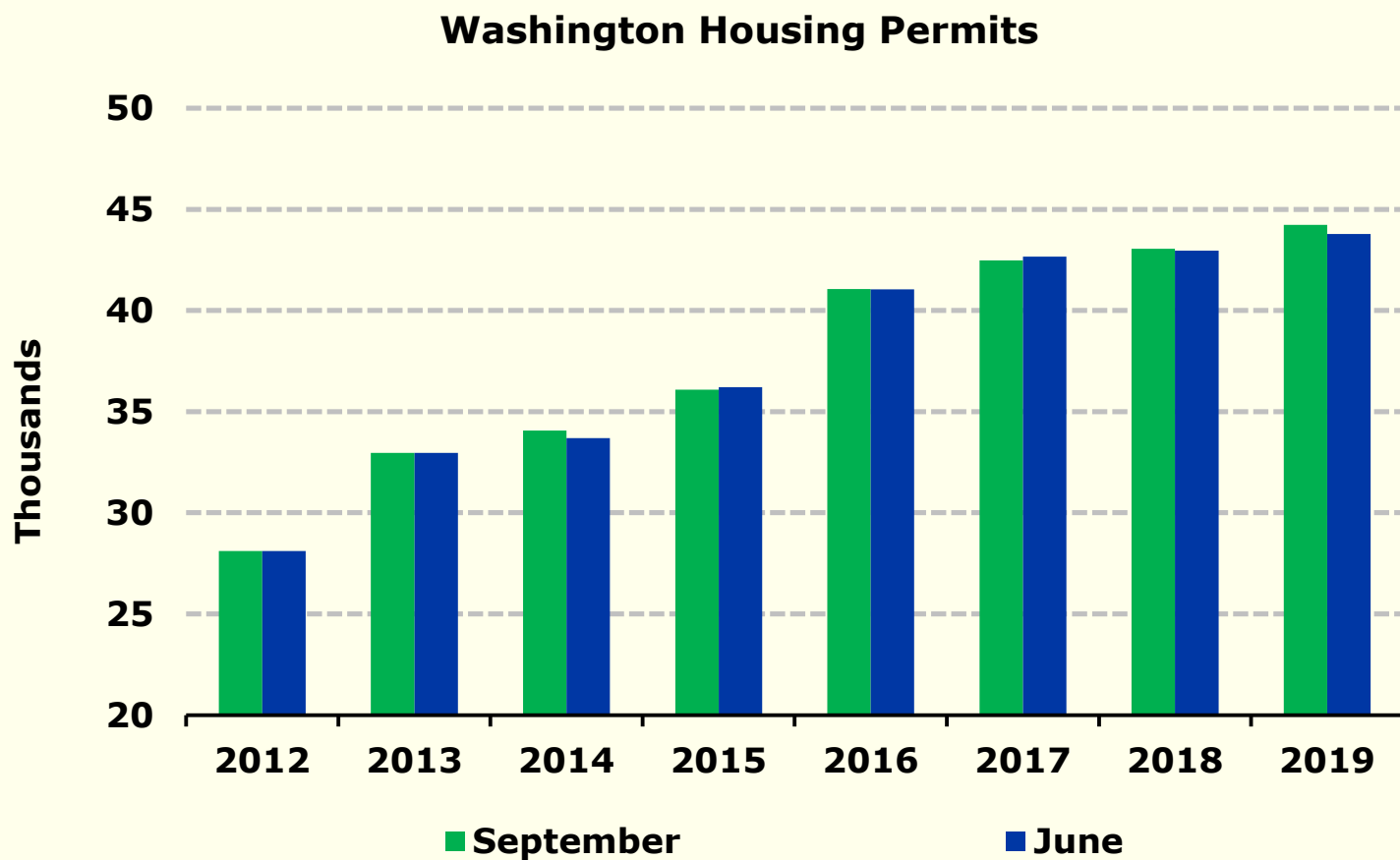
We expect growth in other construction to pick up in 2015



Source: ERFC September 2014 forecast; historical data through 2014Q2



# Washington housing permits forecast is similar to the June forecast



Source: ERFC September 2014 forecast; historical data through 2013

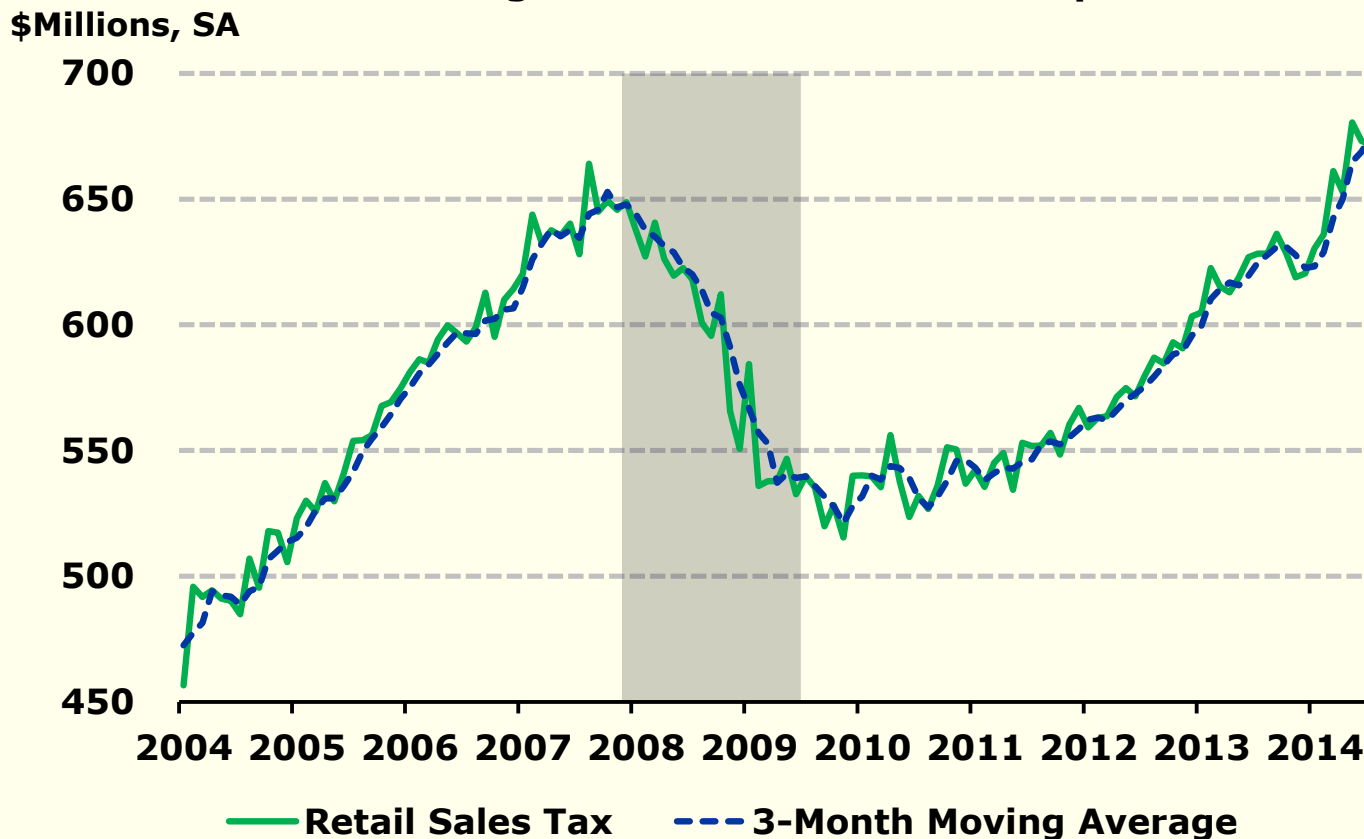


# Sales tax collection growth was strong in the second quarter

Adjusted sales tax collections were up 4.6% year over year for first quarter activity and 7.9% for second quarter activity

Preliminary adjusted collections for July activity were up 6.9% year-over-year

## Washington Retail Sales Tax Receipts



Source: ERFC; Monthly data through July 2014 preliminary activity

Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change

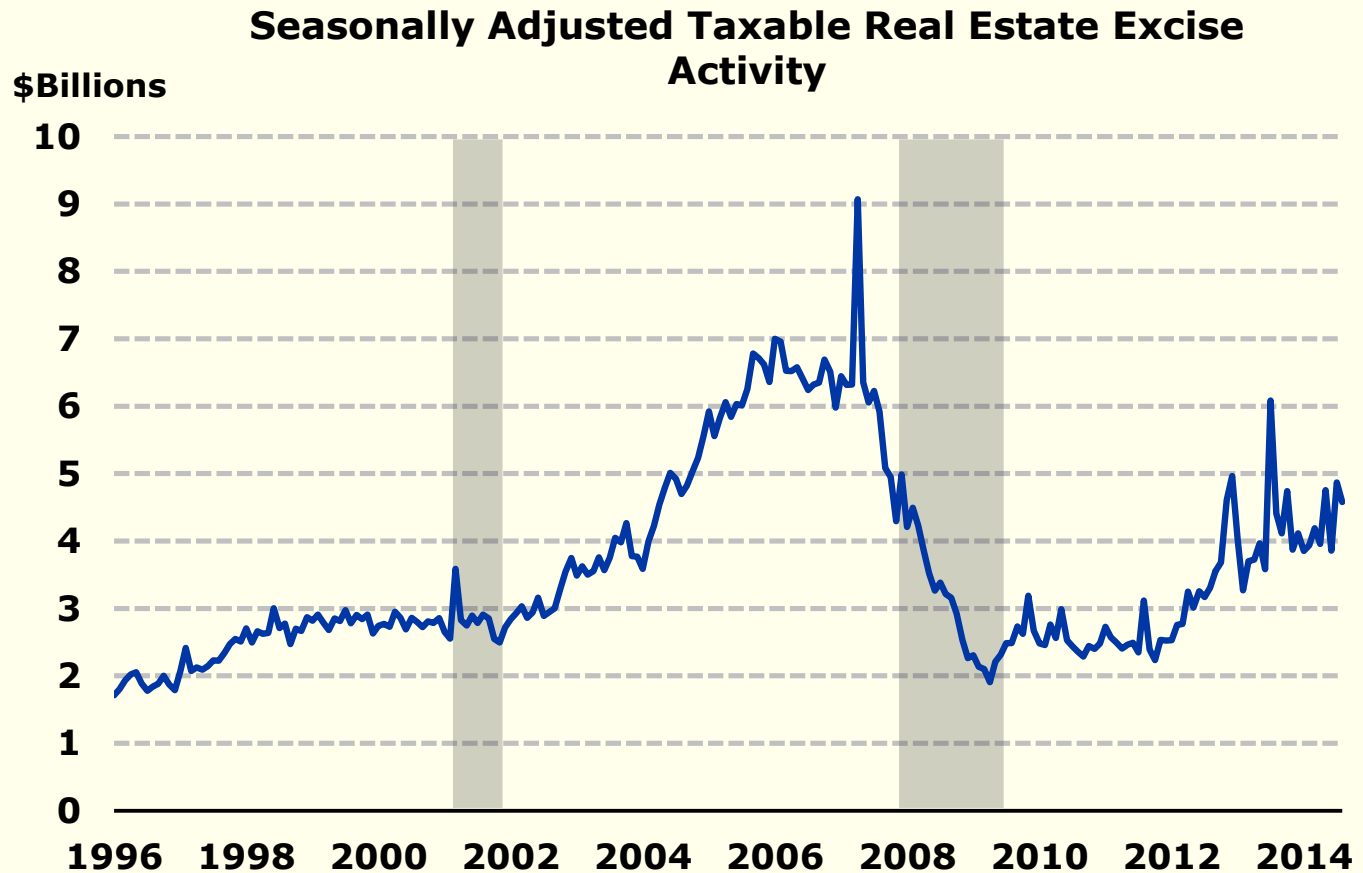
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# REET growth is uneven due to low residential inventory, commercial sales

Sales transactions are down year over year but the value per transaction is higher

Taxable residential activity has been uneven and total taxable activity even more so due to large commercial sales



Source: ERFC; Monthly data through August 2014 preliminary



# GF-S cannabis revenue estimates

Total change  
from June  
forecast:

•2013-15  
+\$25.4 M

•2015-17  
+\$44.9 M

•2017-19  
-\$19.6 M

**\$Millions**

**September Forecast**

	<b><u>2013-15</u></b>	<b><u>2015-17</u></b>	<b><u>2017-19</u></b>
GF-S share of excise tax and license fees	\$3.1	\$31.1	\$63.0
Retail sales tax and B&O	\$3.8	\$28.9	\$56.0
<b>Total General Fund</b>	<b>\$6.9</b>	<b>\$60.1</b>	<b>\$119.0</b>
<b>Total Non-GF</b>	<b>\$18.5</b>	<b>\$146.8</b>	<b>\$285.4</b>

\* Detail may not add to total due to rounding

Source: ERFC, BOTEC Analysis

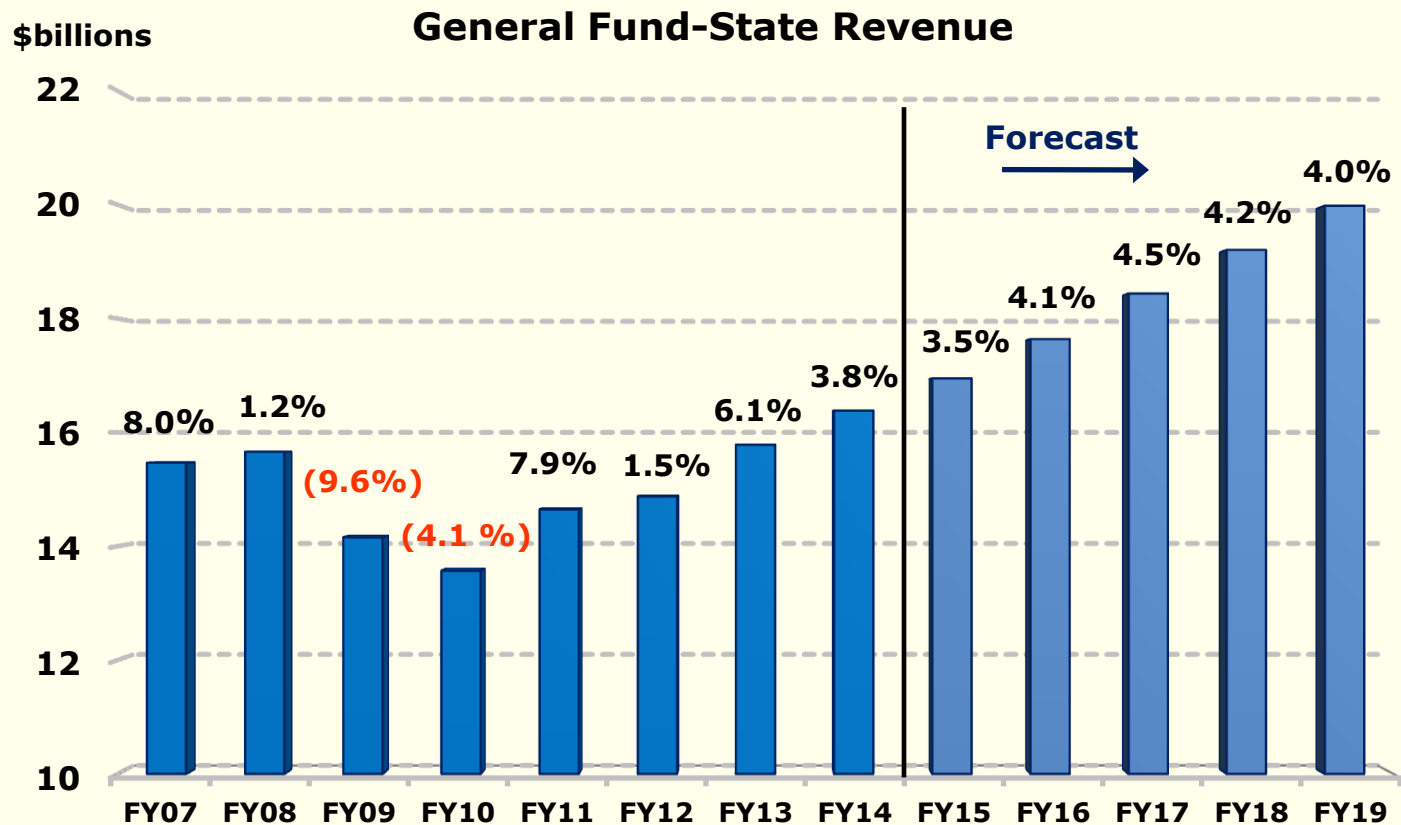
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# General Fund-State\* forecast by fiscal year







# 2013-15 Biennium alternative forecasts – cash basis

<b>\$Millions</b>	<b>2013-15 Biennium</b>	<b>Difference From the baseline</b>
<b>September Baseline (55%)</b>	<b>\$33,332</b>	
<b><u>September 2014 Alternative Forecasts</u></b>		
<b>Optimistic (20%)</b>	<b>\$34,260</b>	<b>\$928</b>
<b>Pessimistic (25%)</b>	<b>\$32,302</b>	<b>(\$1,030)</b>
<b>Probability Weighted Average</b>	<b>\$33,260</b>	<b>(\$72)</b>
<b>GCEA*</b>	<b>\$33,344</b>	<b>\$13</b>

\*Based on the Governor's Council of Economic Advisors' assumptions

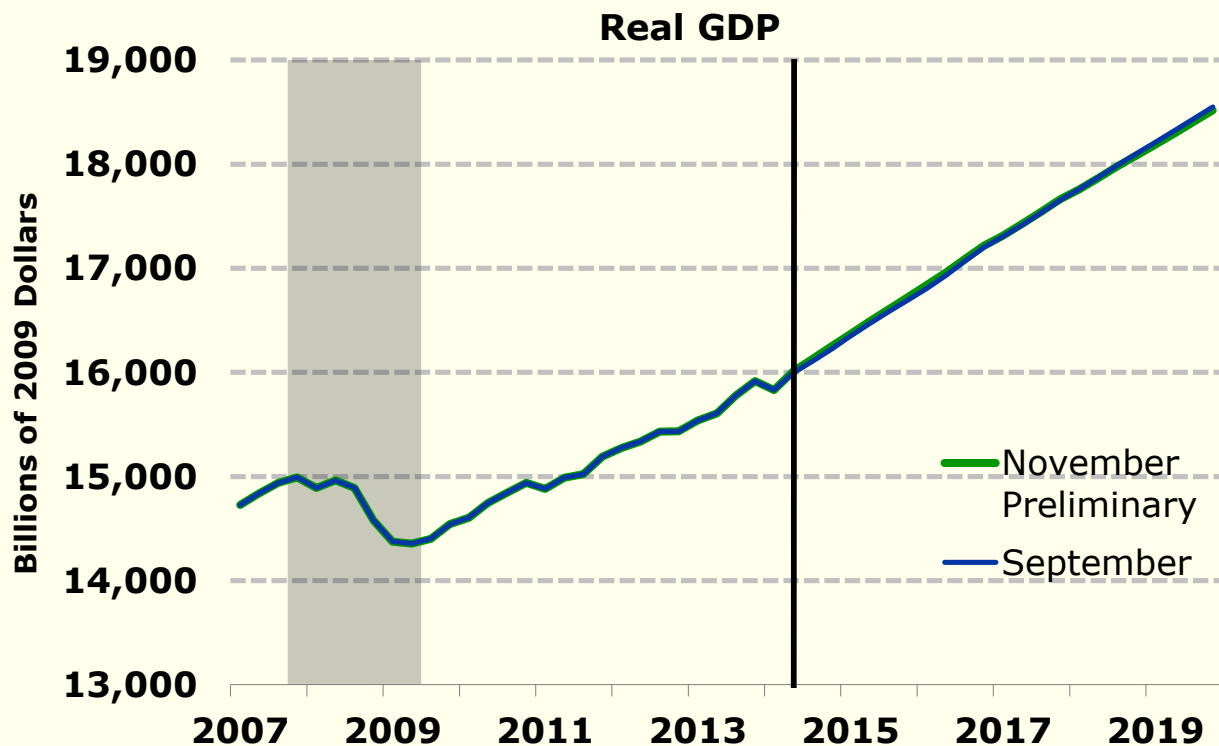


# The Blue Chip real GDP forecast is little changed since September

The forecast for 2014 and 2015 is slightly higher due mainly to stronger growth in 2014Q2.

The new long-term forecast is slightly weaker.

The level of real GDP in 2019 is just 0.1% lower than in the September forecast.



	2012	2013	2014	2015	2016	2017	2018	2019
<b>Preliminary November</b>	2.3	2.2	2.2	3.1	2.9	2.7	2.5	2.4
<b>September</b>	2.3	2.2	2.1	3.0	2.9	2.8	2.6	2.5

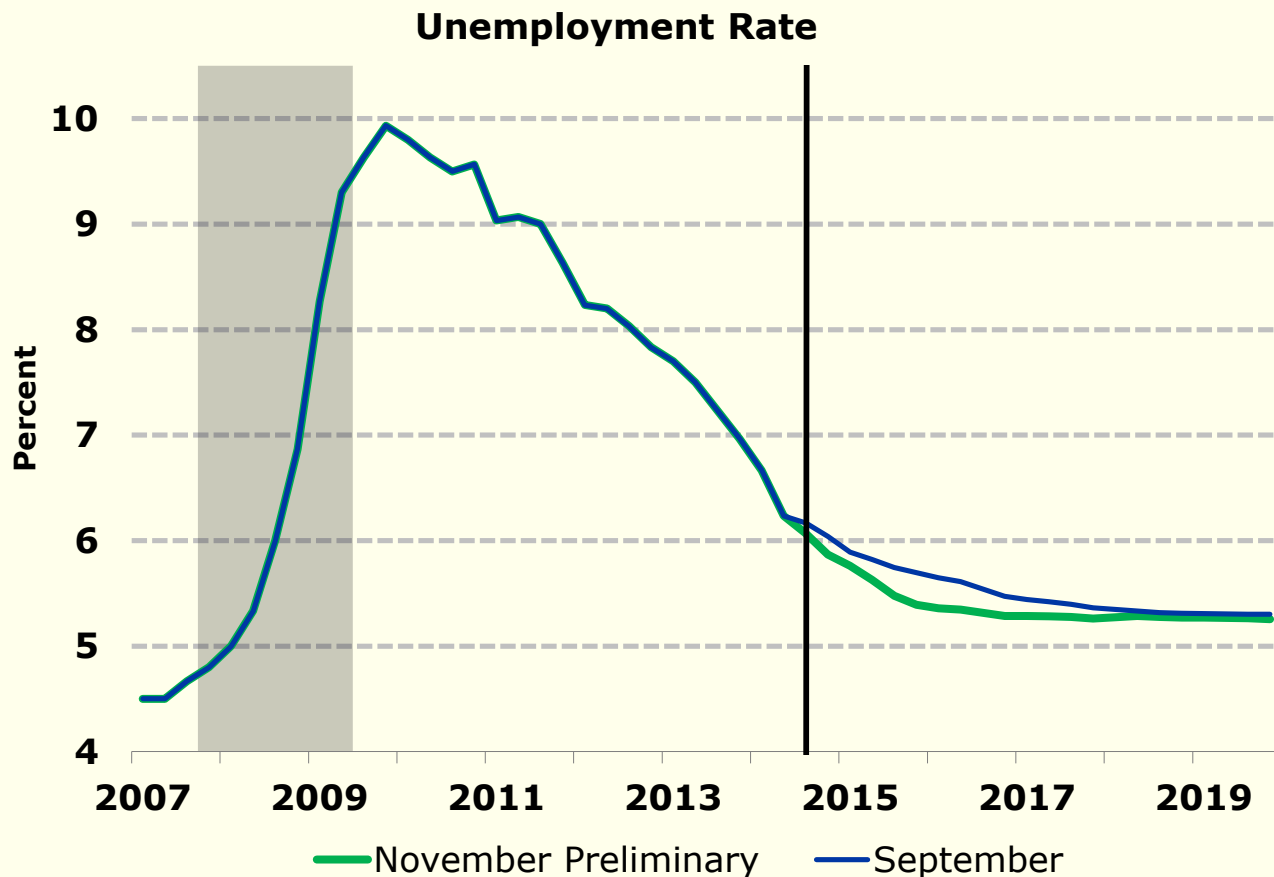
Source: Global Insight, ERFC; data through Q2 2014

Note: Vertical black line indicates last actual



# The unemployment rate forecast is falling faster than expected

As in September, the unemployment rate is expected to decline to around 5.3%.



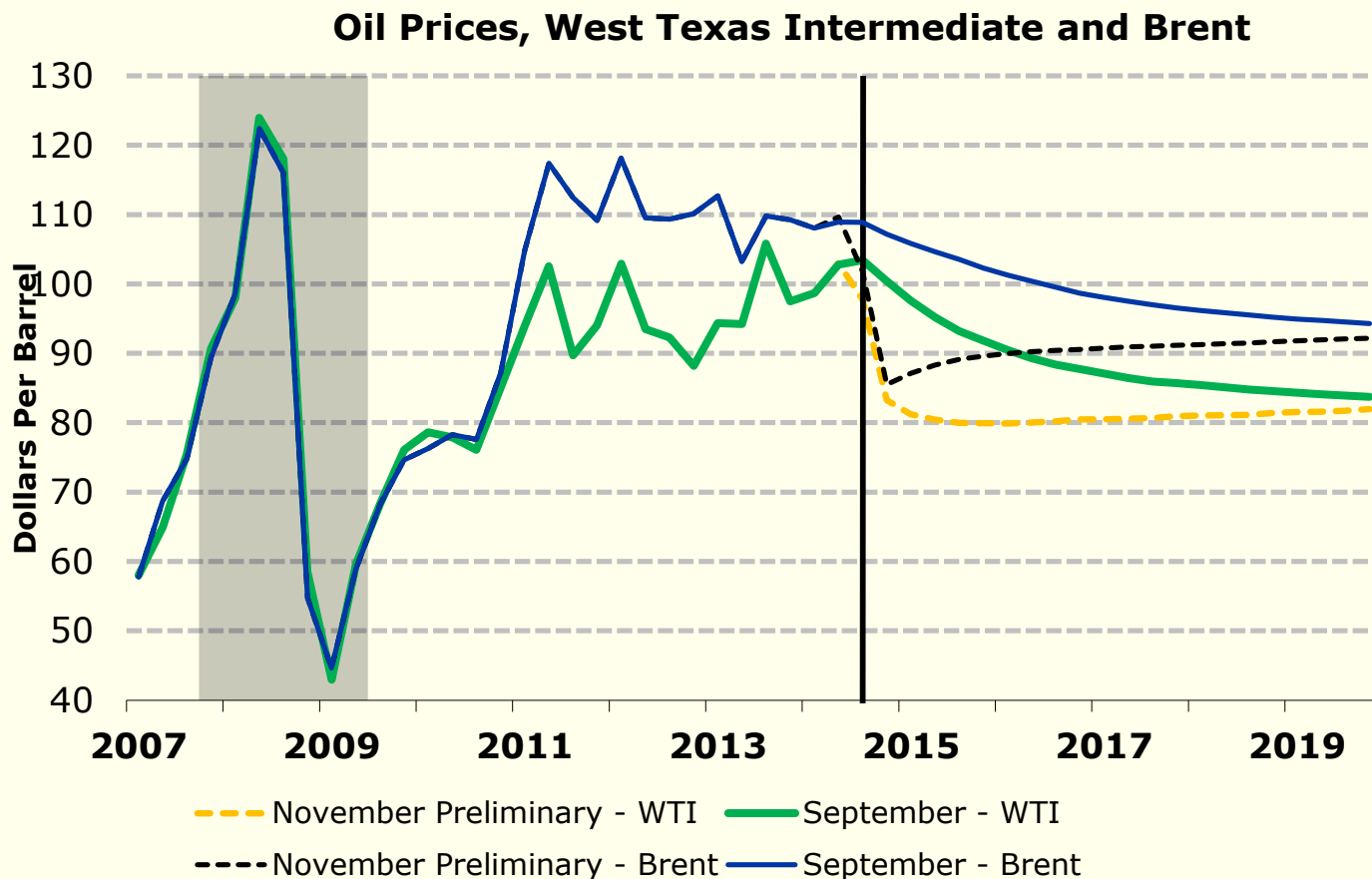
Source: Global Insight, ERFC; data through Q3 2014  
Note: Vertical black line indicates last actual



# Both WTI and Brent prices have dropped dramatically

Both WTI and Brent prices have dropped dramatically and the spread has narrowed.

The futures markets are signaling that the spread will return to about \$10 per barrel.



Source: CME Group, Intercontinental Exchange, Inc., Global Insight, ERFC; data through Q3, 2014  
Note: Vertical black line indicates last actual



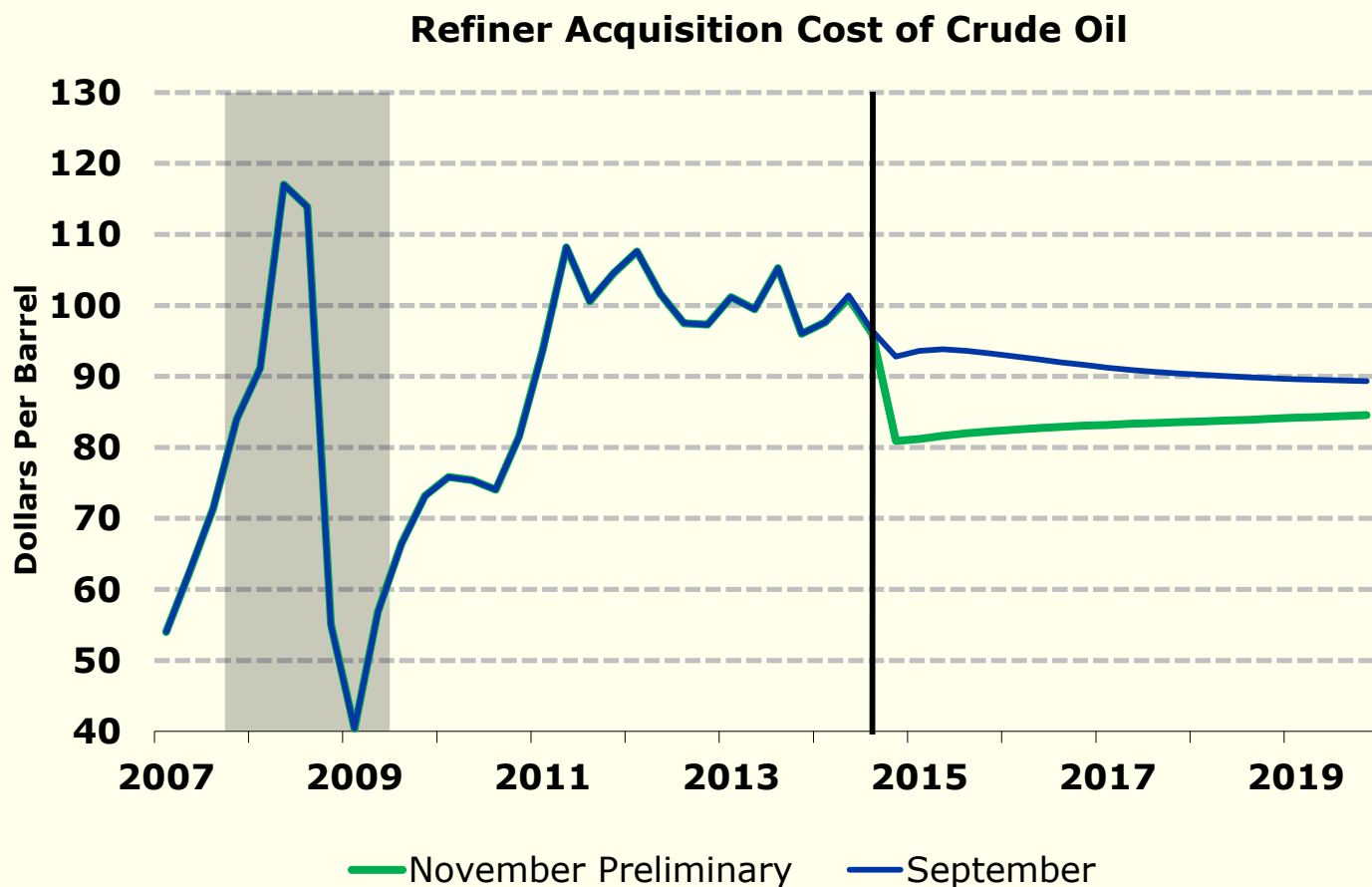
# The refiner's acquisition oil price is also much lower in the near term

The refiner's acquisition price is the oil price variable that affects inflation in the model.

The price in the fourth quarter of this year is now expected to average \$81 compared to \$93 in the September forecast.

However, prices are now expected to rise during the remainder of the forecast.

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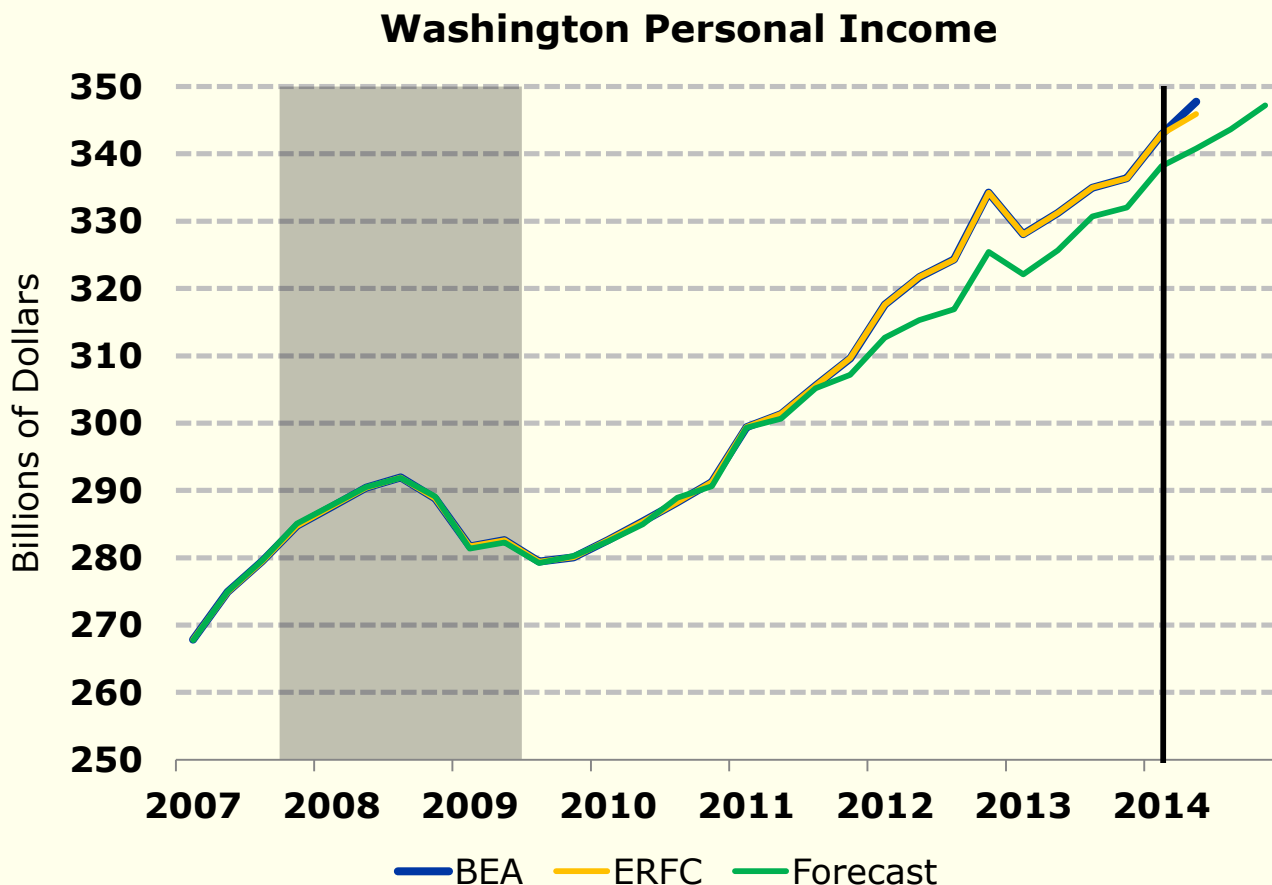
Source: Energy Information Administration, Global Insight, ERFC; data through Q3, 2014  
Note: Vertical black line indicates last actual



# Washington personal income has been revised sharply higher

The annual revision raised the estimate of Washington personal income in 2013 by \$4.403 billion (1.3%).

The revision was more than accounted for by a \$5.108 billion (7.9%) increase in the estimate for dividends, interest, and rent.



Source: U.S. Bureau of Economic Analysis, ERFC; data through first quarter, 2014  
Note: Vertical black line indicates last actual in June

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# Conclusion

- The September economic forecast is quite similar to June's forecast; we expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- Threats to economic recovery include the potential for slower Chinese economic growth, possible disruptions to the housing recovery, and a geopolitical unrest
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy
- GF-S revenues are expected to grow 8.7% between the 2011-13 and 2013-15 biennia and 8.2% between the 2013-15 and 2015-17 biennia



# Questions



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360-534-1560**